Bank of New York Mellon CORP
Form 10-Q
August 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant To Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2013

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 X 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 X 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 [X]	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 X

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

Class	Outstanding as of June 30, 2013
Common Stock, $0.01 par value	1,150,476,690

THE BANK OF NEW YORK MELLON CORPORATION

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

Consolidated Financial Highlights (unaudited)

	Quarter ended			Year-to-date	
(dollar amounts in millions, except per share amounts and unless otherwise noted)	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Results applicable to common shareholders of The Bank of New York Mellon Corporation:					
Net income (loss)	$833	$(266)	$466	$567	$1,085
Basic EPS	0.71	(0.23)	0.39	0.48	0.91
Diluted EPS (a)	0.71	(0.23)	0.39	0.48	0.90
Fee and other revenue	$3,187	$2,844	$2,826	$6,031	$5,664
Income from consolidated investment management funds	65	50	57	115	100
Net interest revenue	757	719	734	1,476	1,499
Total revenue	$4,009	$3,613	$3,617	$7,622	$7,263
Return on common equity (annualized) (b)	9.7%	N/M	5.5%	3.3%	6.4%
Non-GAAP (b)	10.5%	7.8%	8.9%	9.1%	8.9%
Return on tangible common equity (annualized) – Non-GAAP (b)	25.0%	N/M	15.7%	9.5%	18.3%
Non-GAAP adjusted (b)	25.2%	18.5%	22.4%	21.9%	22.7%
Return on average assets (annualized)	0.99%	N/M	0.61%	0.34%	0.72%
Fee revenue as a percentage of total revenue excluding net securities gains	79%	78%	78%	79%	78%
Annualized fee revenue per employee (based on average headcount) (in thousands)	$254	$229	$233	$242	$233
Percentage of non-U.S. total revenue (c)	36%	35%	37%	36%	37%
Pre-tax operating margin (b)	30%	22%	16%	26%	20%
Non-GAAP adjusted (b)	32%	26%	29%	29%	29%
Net interest margin (FTE)	1.15%	1.11%	1.25%	1.13%	1.28%
Assets under management at period end (in billions) (d)	$1,432	$1,429	$1,299	$1,432	$1,299
Assets under custody and/or administration at period end (in trillions) (e)	$26.2	$26.3	$25.2	$26.2	$25.2
Market value of securities on loan at period end (in billions) (f)	$255	$244	$267	$255	$267
Average common shares and equivalents outstanding (in thousands):					
Basic	1,152,545	1,158,819	1,181,350	1,155,667	1,187,649

Diluted	1,155,981		1,158,819	(a)	1,182,985		1,159,169		1,189,264		
Capital ratios:											
Estimated Basel III Tier 1 common equity ratio – Non-GAAP (b)(g)	9.3	%	9.4	%	8.7	%	9.3	%	8.7	%	
Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP (b)	13.2	%	12.2	%(h)	13.2	%	13.2	%	13.2	%	
Basel I Tier 1 capital ratio	14.8	%	13.6	%(h)	14.7	%	14.8	%	14.7	%	
Basel I Total (Tier 1 plus Tier 2) capital ratio	15.8	%	14.7	%(h)	16.4	%	15.8	%	16.4	%	
Basel I leverage capital ratio	5.3	%	5.2	%	5.5	%	5.3	%	5.5	%	
BNY Mellon shareholders' equity to total assets ratio (b)	10.0	%	10.0	%	10.5	%	10.0	%	10.5	%	
BNY Mellon common shareholders' equity to total assets ratio (b)	9.5	%	9.7	%	10.3	%	9.5	%	10.3	%	
BNY Mellon tangible common shareholders' equity to tangible assets of operations ratio – Non-GAAP (b)	5.8	%	5.9	%	6.1	%	5.8	%	6.1	%	

Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended June 30, 2013	March 31, 2013	June 30, 2012	Year-to-date June 30, 2013	June 30, 2012
Selected average balances:					
Interest-earning assets	$268,481	$265,754	$239,755	$267,124	$238,042
Assets of operations	$325,931	$322,161	$293,718	$324,055	$291,808
Total assets	$337,455	$333,664	$305,002	$335,569	$303,172
Interest-bearing deposits	$151,219	$147,728	$130,482	$149,484	$127,959
Noninterest-bearing deposits	$70,648	$70,337	$62,860	$70,493	$64,737
Preferred stock	$1,350	$1,068	$60	$1,210	$30
Total The Bank of New York Mellon Corporation common shareholders' equity	$34,467	$34,898	$34,123	$34,681	$33,920
Other information at period end:					
Cash dividends per common share	$0.15	$0.13	$0.13	$0.28	$0.26
Common dividend payout ratio (i)	21 %	N/M	33 %	58 %	29 %
Common dividend yield (annualized)	2.1 %	1.9 %	2.4 %	2.0 %	2.4 %
Closing common stock price per common share	$28.05	$27.99	$21.95	$28.05	$21.95
Market capitalization	$32,271	$32,487	$25,929	$32,271	$25,929
Book value per common share – GAAP (b)	$29.83	$29.83	$28.81	$29.83	$28.81
Tangible book value per common share – Non-GAAP (b)	$12.41	$12.47	$11.47	$12.41	$11.47
Full-time employees	49,800	49,700	48,300	49,800	48,300
Common share outstanding (in thousands)	1,150,477	1,160,647	1,181,298	1,150,477	1,181,298

(a) Diluted earnings per share for the three months ended March 31, 2013 was calculated using average basic shares. Adding back the dilutive shares would result in anti-dilution.

(b) See "Supplemental information – Explanation of Non-GAAP financial measures" beginning on page 52 for a calculation of these ratios.

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

(d) Excludes securities lending cash management assets and assets managed in the Investment Services business.

(e) Includes the AUC/A of CIBC Mellon Global Securities Services Company ("CIBC Mellon"), a joint venture with the Canadian Imperial Bank of Commerce, of $1.1 trillion at June 30, 2013 and $1.2 trillion at both March 31, 2013 and June 30, 2012.

(f) Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities on loan at CIBC Mellon.

(g) At June 30, 2013, the estimated Basel III Tier 1 common equity ratio is based on our preliminary interpretation of and expectations regarding the final rules released by the Board of Governors of the Federal Reserve System (the "Federal Reserve") on July 2, 2013 and is presented under the Standardized Approach. This ratio was 9.8% under the Advanced Approach. For periods prior to June 30, 2013, these ratios were estimated using our interpretation of the Federal Reserve's Notices of Proposed Rulemaking ("NPRs") dated June 7, 2012, except as otherwise noted. Both the final rules and the NPRs require the Tier 1 common equity ratio to be the lower of the Standardized Approach or Advanced Approach. At March 31, 2013, this ratio was 9.4% under the Standardized Approach compared with 9.7% under the Advanced Approach. For all periods prepared under the NPRs prior to March 31, 2013, this ratio was higher under the Standardized Approach, and therefore was presented under the Advanced Approach. For all periods prior to June 30, 2013, Basel III risk-weightings for certain repo-style transactions were calculated under the Standardized Approach using the simple value-at-risk ("VaR") method. At June 30, 2013, Basel III risk-weightings for these transactions were calculated under the Standardized Approach using the collateral haircut approach.

(h) In the first quarter of 2013, BNY Mellon was required to implement the Basel 2.5 - final market risk rule. Implementation of these rules resulted in an approximately 35-40 basis points decrease to the Basel I Tier 1 common equity to risk-weighted assets ratio, the Basel I Tier 1 capital ratio and the Basel I Total capital ratio.

(i) The common dividend payout ratio was 23% for the first six months of 2013 after adjusting for the charge related to the disallowance of certain foreign tax credits.

N/M – Not meaningful.

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 refe to The Bank of New York Mellon Corporation and its consolidated subsidiaries. The term "Parent" refers to The Bank of New York Mellon Corporation but not its subsidiaries.

Certain business terms used in this report are defined in the Glossary included in our Annual Report on Form 10-K for the year ended Dec. 31, 2012 ("2012 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 financial measures," exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons using measures that relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present the net interest margin on a fully taxable equivalent ("FTE") basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See "Supplemental information - Explanation of Non-GAAP financial measures" beginning on page 52 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 investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of June 30, 2013, BNY Mellon had $26.2 trillion in assets under custody and/or administration, and $1.4 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create trade, hold, manage, service, distribute or restructure investments.

Key second quarter 2013 and subsequent events

ConvergEx

In the second quarter of 2013, ConvergEx, an entity in which BNY Mellon has a minority interest, completed a divestiture of its software platform business. As a result of the divestiture and other events, we recognized an after-tax gain of $109 million, or $0.09 per diluted common share, on our investment in ConvergEx in the second quarter of 2013.

Sale of SourceNet Solutions

On May 31, 2013, BNY Mellon sold SourceNet Solutions, our accounts payable outsourcing support services provider that was part of our Investment Services business. The impact of the sale was not significant on net income.

Agreement to Sell Newton's Private Client Business

On Feb. 27, 2013, Newton Management Limited, together with Newton Investment Management Limited, an investment boutique of BNY Mellon, announced an agreement to sell Newton's private client business. The agreement covers 7% of

Newton's assets under management valued at signing at £3.6 billion. The transaction is anticipated to close in the third quarter of 2013, subject to regulatory approval. We expect this transaction to be immaterial to our results of operations.

New Risk-Based and Leverage Regulatory Capital Rules

In July 2013, the federal banking agencies finalized rules (the "Final Rules") revising the capital framework applicable to U.S. bank holding companies ("BHCs") and banks. The Final Rules implement Basel III and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act" or "Dodd-Frank") for U.S. BHCs and banks (including by redefining the components of capital and establishing higher minimum percentages for applicable capital ratios) and substantially revise the agencies' general risk-based capital rules in a manner designed to make them more risk sensitive. The Final Rules establish a graduated implementation schedule and will be principally phased-in by 2019. In general, the Final Rules largely adhere to the rules as initially proposed in June 2012 and as summarized in the Company's 2012 Annual Report. At June 30, 2013, our estimated Basel III Tier 1 common equity ratio (Non-GAAP), which was based on our preliminary interpretation of and expectations regarding the Final Rules, was 9.3%. Our estimated Basel III Tier 1 common equity ratio (Non-GAAP) was 9.4% at March 31, 2013 and 8.7% at Dec. 31, 2012 and was calculated using our interpretations of the Notices of Proposed Rulemaking ("NPRs") dated June 7, 2012 released by Board of Governors of the Federal Reserve System (the "Federal Reserve"), except as otherwise noted in our discussions on our Basel III capital ratios. For additional information on the Final Rules, see "Capital" and "Recent accounting and regulatory developments - Regulatory developments".

Supplementary Leverage Ratio Proposals

The Final Rules implement, among other things, for Advanced Approaches banking organizations, including the Company, a new Basel III-based supplementary leverage ratio of 3%, to become effective Jan. 1, 2018. The Basel Committee and the U.S. banking agencies are each independently considering potential changes to the supplementary leverage ratio that, individually or taken together, could make it substantially more restrictive.

In June 2013, the Basel Committee issued a consultative document proposing revisions to the supplementary leverage ratio's denominator. The proposed revisions would broaden the denominator's scope to expand exposure calculations for derivatives and related collateral, written credit derivatives (from the perspective of the organization serving as the seller of credit protection), and securities financing transactions, including indemnified agented securities lending transactions.

Separately, on July 9, 2013, the U.S. banking agencies proposed revisions to the supplementary leverage ratio under a notice of proposed rulemaking that would only apply to the largest U.S. BHCs and banks. The July 9 proposal would increase the supplementary leverage requirement for affected holding companies to exceed 5%. In addition, this proposal would establish a supplementary leverage ratio "well-capitalized" threshold of 6% for affected insured depository institutions under the U.S. banking agencies prompt corrective action framework. The proposal indicated the agencies would also be considering the principles set forth in the Basel Committee's consultative document.

For additional information regarding the supplementary leverage ratio proposals, see "Recent accounting and regulatory developments - Regulatory developments".

Highlights of second quarter 2013 results

In the second quarter of 2013, we reported net income applicable to common shareholders of BNY Mellon of $833 million, or $0.71 per diluted common share, including an after-tax gain of $109 million, or $0.09 per diluted common share, related to an equity investment. These results compare with net income applicable to common shareholders of $466 million, or $0.39 per diluted common share including a litigation charge of $212 million (after-tax) or $0.18 per common share, in the second quarter of 2012. In the first quarter of 2013, we recorded a net loss of $266 million, or $0.23 per diluted common share, which included a charge of $854 million, or $0.73 per common share, related to the U.S. Tax Court's disallowance of certain foreign tax credits.

Highlights of second quarter 2013 include:

- Assets under custody and/or administration ("AUC/A") totaled $26.2 trillion at June 30, 2013 compared with $25.2 trillion at June 30, 2012 and $26.3 trillion at March 31, 2013. The increase of 4% year-over-year primarily reflects higher equity market values and net new business. (See the "Investment Services business" beginning on page 22.)
- Assets under management ("AUM") totaled a $1.43 trillion at June 30, 2013 compared with $1.30 trillion at June 30, 2012 and $1.43 trillion at March 31, 2013. The year-over-year increase of 10% primarily resulted from net new business and higher equity market values. (See the "Investment Management business" beginning on page 19).
- Investment services fees increased 4% in the second quarter of 2013 compared with the second quarter of 2012. The increase was driven by higher asset servicing, issuer services, and clearing services revenue, partially offset by lower securities lending revenue. (See the "Investment Services business" beginning on page 22).
- Investment management and performance fees increased 6% in the second quarter of 2013 compared with the second quarter of 2012. The increase was driven by higher market values and net new business, partially offset by the stronger U.S. dollar and higher money market fee waivers. (See the "Investment Management business" beginning on page 19).
- Foreign exchange and other trading revenue totaled $207 million in the second quarter of 2013 compared with $180 million in the second quarter of 2012. In the second quarter of 2013, foreign exchange revenue increased 14% year-over-year, driven by higher volatility and increased volumes. (See "Fee and other revenue" beginning on page 7).
- Investment income and other revenue totaled $269 million in the second quarter of 2013 compared with $48 million in the second quarter of 2012. The increase primarily resulted from a

gain related to an equity investment. (See "Fee and other revenue" beginning on page 7).

- Net interest revenue totaled $757 million in the second quarter of 2013 compared with $734 million in the second quarter of 2012. The increase is primarily driven by a change in the mix of interest-earning assets, lower funding costs, higher rates and higher average interest-earning assets driven by higher deposit levels. (See "Net interest revenue" beginning on page 11).
- The provision for credit losses was a credit of $19 million in both the second quarter of 2013 and the second quarter of 2012. (See "Asset quality and allowance for credit losses" beginning on page 35).
- Noninterest expense totaled $2.8 billion in the second quarter of 2013 compared with $3.0 billion the second quarter of 2012. The decrease primarily resulted from a decrease in litigation charges. (See "Noninterest expense" beginning on page 14).
- BNY Mellon recorded an income tax provision of $321 million (26.6% effective tax rate) in the second quarter of 2013. This compared with an income tax provision of $93 million (15.8% effective tax rate) in the second quarter of 2012, which included a reduction in the tax rate of approximately 9% related to a litigation charge. (See "Income taxes" on page 15).
- The net unrealized pre-tax gain on our total investment securities portfolio was $656 million at June 30, 2013 compared with $2.2 billion at March 31, 2013. The decrease primarily reflects an increase in long-term interest rates. (See "Investment securities" beginning on page 30).
- At June 30, 2013, our estimated Basel III Tier 1 common equity ratio (Non-GAAP) was 9.3% compared with 9.4% at March 31, 2013. (See "Capital" beginning on page 44).
- In the second quarter of 2013, we repurchased 11.9 million common shares in the open market, at an average price of $27.79 per share, for a total of $330 million.

Fee and other revenue

Fee and other revenue				2Q13 vs.		Year-to-date		YTD13 vs.
(dollars in millions, unless otherwise noted)	2Q13	1Q13	2Q12	2Q12	1Q13	2013	2012	YTD12
Investment services fees:								
Asset servicing (a)	$988	$969	$950	4 %	2 %	$1,957	$1,893	3 %
Issuer services	294	237	275	7	24	531	526	1
Clearing services	321	304	309	4	6	625	612	2
Treasury services	139	141	134	4	(1)	280	270	4
Total investment services fees	1,742	1,651	1,668	4	6	3,393	3,301	3
Investment management and performance fees	848	822	797	6	3	1,670	1,542	8
Foreign exchange and other trading revenue	207	161	180	15	29	368	371	(1)
Distribution and servicing	45	49	46	(2)	(8)	94	92	2
Financing-related fees	44	41	37	19	7	85	81	5
Investment and other income	269	72	48	N/M	N/M	341	187	N/M
Total fee revenue	3,155	2,796	2,776	14	13	5,951	5,574	7
Net securities gains	32	48	50	N/M	N/M	80	90	N/M
Total fee and other revenue - GAAP	$3,187	$2,844	$2,826	13 %	12 %	$6,031	$5,664	6 %
Fee revenue as a percentage of total revenue excluding net securities gains	79 %	78 %	78 %			79 %	78 %	
AUM at period end (in billions) (b)	$1,432	$1,429	$1,299	10 %	— %	$1,432	$1,299	10 %
AUC/A at period end (in trillions) (c)	$26.2	$26.3	$25.2	4 %	— %	$26.2	$25.2	4 %

(a) Asset servicing fees include securities lending revenue of $50 million in the second quarter of 2013, $39 million in the first quarter of 2013, $59 million in the second quarter of 2012, $89 million in the first six months of 2013 and $108 million in the first six months of 2012.

(b) Excludes securities lending cash management assets, as well as, assets managed in the Investment Services business.

(c) Includes the AUC/A of CIBC Mellon of $1.1 trillion at June 30, 2013 and $1.2 trillion at both March 31, 2013 and June 30, 2012.

Fee and other revenue

Fee and other revenue totaled $3.2 billion in the second quarter of 2013, an increase of 13% year-over-year and 12% (unannualized) sequentially. Both increases were driven by improvements in nearly all fee revenue categories.

Investment services fees

Investment services fees were impacted by the following compared with the second quarter of 2012 and the first quarter of 2013:

- Asset servicing fees increased 4% year-over-year and 2% (unannualized) sequentially. The year-over-year increase primarily reflects increased core asset servicing fees driven by organic growth and higher market values, partially offset by lower securities lending revenue. The sequential increase primarily resulted from seasonally higher securities lending revenue and increased core asset servicing fees driven by organic growth.

- Issuer services fees increased 7% year-over-year and 24% (unannualized) sequentially. Both increases primarily resulted from higher fees related to corporate actions and expense reimbursements related to customer technology expenditures. The year-over-year increase was partially offset by the continued run-off of higher margin structured debt securitizations. We continue to estimate that the run-off of high margin securitizations could reduce the Company's total annual revenue by up to one-half of 1% if the structured debt markets do not recover.
- Clearing services fees increased 4% year-over-year and 6% (unannualized) sequentially. Both increases were driven by higher mutual fund fees, and clearance revenue reflecting an increase in DARTs, partially offset by higher money market fee waivers.
- Treasury services fees increased 4% year-over-year and decreased of 1% (unannualized) sequentially. The year-over-year increase primarily reflects higher cash management fees.

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

Investment management and performance fees

Investment management and performance fees totaled $848 million in the second quarter of 2013, an increase of 6% year-over-year and 3% (unannualized) sequentially. The year-over-year increase was primarily driven by higher market values and net new business, partially offset by the stronger U.S. dollar and higher money market fee waivers. The sequential increase was primarily driven by net new business and higher equity market values, partially offset by higher money market fee waivers and the stronger U.S. dollar. Performance fees were $33 million in the second quarter of 2013, $54 million in the second quarter of 2012 and $15 million in the first quarter of 2013.

Total AUM for the Investment Management business was a record $1.4 trillion at June 30, 2013, a 10% increase compared with the prior year and a slight increase (unannualized) sequentially. The year-over-year increase primarily resulted from net new business and higher market values. Sequentially, net new business was primarily offset by lower fixed income market values. Long-term inflows totaled $21 billion and short-term outflows totaled $1 billion for the second quarter of 2013. Long-term inflows benefited from liability-driven investments, equity and fixed income funds.

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)	2Q13	1Q13	2Q12	2013	2012
Foreign exchange	$179	$149	$157	$328	$293
Other trading revenue:					
Fixed income	12	8	16	20	63
Equity/other	16	4	7	20	15
Total other trading revenue	28	12	23	40	78
Total	$207	$161	$180	$368	$371

Foreign exchange and other trading revenue totaled $207 million in the second quarter of 2013, $180 million in the second quarter of 2012 and $161 million in the first quarter of 2013. In the second quarter of 2013, foreign exchange revenue totaled $179 million, an increase of 14% year-over-year and 20% (unannualized) sequentially. Both increases primarily reflect higher volatility and increased volumes. Other trading revenue was $28 million in the second quarter of 2013 compared with $23 million in the second quarter of 2012 and $12 million in the first quarter of 2013. Foreign exchange revenue and fixed income trading revenue is reported in the Investment Services business and the Other segment. Equity/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 competitive market pressures on the foreign exchange business may negatively impact our foreign exchange revenue. For the quarter ended June 30, 2013, our total revenue for all types of foreign exchange trading transactions was $179 million, or approximately 4%, of our total revenue and approximately 42% 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 $45 million in the second quarter of 2013, $46 million in the second quarter of 2012 and $49 million in the first quarter of 2013. Both decreases were impacted by the stronger U.S. dollar.

Financing-related fees

Financing-related fees, which are primarily reported in the Other segment, include capital markets fees, loan commitment fees and credit-related fees. Financing-related fees were $44 million in the second quarter of 2013, $37 million in the second quarter of 2012 and $41 million in the first quarter of 2013. The increase from both prior periods was primarily a result of higher capital markets fees.

Investment and other income

Investment and other income

				Year-to-date	
(in millions)	2Q13	1Q13	2Q12	2013	2012
Equity investment revenue (loss)	$200	$13	$(5)	$213	$1
Corporate/bank-owned life insurance	32	34	32	66	66
Expense reimbursements from joint ventures	8	11	9	19	19
Asset-related gains (losses)	7	7	(3)	14	(5)
Lease residual gains	10	1	3	11	37

Transitional services agreements	4	5	6	9	13
Seed capital gains	1	6	—	7	24
Private equity gains (losses)	5	(2)	1	3	5
Other income (loss)	2	(3)	5	(1)	27
Total investment and other income	$269	$72	$48	$341	$187

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes income from equity investment revenue and loss, insurance contracts, expense reimbursements from joint ventures, asset-related gains and losses, lease residual gains, transitional services agreements, gains or losses on seed capital investments, gains and losses on private equity investments, and other income and loss.

Expense reimbursements from joint ventures relate to expenses incurred by BNY Mellon on behalf of joint ventures. Asset-related gains (losses) include loan, real estate and other asset dispositions. Transitional services agreements primarily relate to the Shareowner Services business, which was sold on Dec. 31, 2011. Other income (loss) primarily includes foreign currency remeasurement gain (loss), other investments and various miscellaneous revenues. Investment and other income increased $221 million compared with the second quarter of 2012 and $197 million compared with the first quarter of 2013. Both increases reflect a gain related to an equity investment.

Net securities gains

Net securities gains totaled $32 million in the second quarter of 2013, $50 million in the second quarter of 2012 and $48 million in the first quarter of 2013.

Year-to-date 2013 compared with year-to-date 2012

Fee and other revenue for the first six months of 2013 totaled $6.0 billion compared with $5.7 billion in the first six months of 2012. The increase primarily reflects higher investment and other income, investment management and performance fees and investment services fees.

The increase in investment and other income primarily reflects a gain related to an equity investment. The increase in investment management and performance fees primarily reflects higher market values and net new business, partially offset by the stronger U.S. dollar. The increase in investment services fees primarily reflects increased core asset servicing fees driven by organic growth and higher market values, higher corporate actions and expense reimbursements related to customer technology expenditures and higher mutual fund fees and clearance revenue, partially offset by lower securities lending revenue and higher money market fee waivers. Net securities gains decreased $10 million in the first six months of 2013 compared with the first six months of 2012.

Net interest revenue

Net interest revenue				2Q13 vs.		Year-to-date		YTD13 vs.
(dollars in millions)	2Q13	1Q13	2Q12	2Q12	1Q13	2013	2012	YTD12
Net interest revenue (non-FTE)	$757	$719	$734	3 %	5 %	$1,476	$1,499	(2)%
Tax equivalent adjustment	14	14	13	8	—	28	24	17
Net interest revenue (FTE) – Non-GAAP	771	733	747	3 %	5 %	1,504	1,523	(1)%
Average interest-earning assets	$268,481	$265,754	$239,755	12 %	1 %	$267,124	$238,042	12 %
Net interest margin (FTE)	1.15 %	1.11 %	1.25 %	(10) bps	4 bps	1.13 %	1.28 %	(15) bps

Net interest revenue totaled $757 million in the second quarter of 2013, an increase of $23 million compared with the second quarter of 2012 and $38 million sequentially. Both increases were primarily driven by a change in the mix of interest-earning assets, lower funding costs, higher rates and higher average interest-earning assets driven by higher deposit levels.

The net interest margin (FTE) was 1.15% in the second quarter of 2013 compared with 1.25% in the second quarter of 2012 and 1.11% in the first quarter of 2013. The year-over-year decrease in the net interest margin (FTE) primarily reflects higher average interest-earning assets and lower yields, partially offset by a change in the mix of interest-earning assets.

Year-to-date 2013 compared with year-to-date 2012

Net interest revenue totaled $1.5 billion in the first six months of 2013 a decrease of 2% compared with the first six months of 2012. The decrease primarily reflects lower yields on the reinvestment of securities and the elimination of interest on European Central Bank deposits, partially offset by a change in the mix of interest-earning assets, lower funding costs, higher rates and higher average interest-earning assets driven by higher client deposits. The net interest margin (FTE) was 1.13% in the first six months of 2013, compared with 1.28% in the first six months of 2012. The decline in the net interest margin (FTE) was primarily driven by higher average interest-earning assets and lower yields, partially offset by a change in the mix of interest-earning assets.

Average balances and interest rates	Quarter ended								
	June 30, 2013			March 31, 2013			June 30, 2012		
(dollar amounts in millions, presented on an FTE basis)	Average balance	Average rates		Average balance	Average rates		Average balance	Average rates	
Assets									
Interest-earning assets:									
Interest-bearing deposits with banks (primarily foreign banks)	$42,772	0.64	%	$40,967	0.70	%	$38,474	0.98	%
Interest-bearing deposits held at the Federal Reserve and other central banks	55,911	0.22		63,240	0.20		57,904	0.27	
Federal funds sold and securities purchased under resale agreements	7,878	0.52		7,478	0.54		5,493	0.62	
Margin loans	13,906	1.14		13,346	1.17		13,331	1.27	
Non-margin loans:									
Domestic offices	21,689	2.40		21,358	2.38		19,663	2.52	
Foreign offices	12,318	1.32		11,575	1.36		9,998	1.86	
Total non-margin loans	34,007	2.01		32,933	2.02		29,661	2.30	
Securities:									
U.S. government obligations	19,887	1.62		18,814	1.54		15,387	1.65	
U.S. government agency obligations	47,631	1.80		42,397	1.85		39,070	2.23	
State and political subdivisions – tax-exempt	6,377	2.26		6,194	2.38		4,777	2.65	
Other securities	33,243	1.93		34,507	2.03		32,625	2.51	
Trading securities	6,869	2.33		5,878	2.40		3,033	2.57	
Total securities	114,007	1.86		107,790	1.91		94,892	2.26	
Total interest-earning assets	$268,481	1.27	%	$265,754	1.26	%	$239,755	1.48	%
Allowance for loan losses	(237)			(264)			(382)		
Cash and due from banks	5,060			4,534			4,412		
Other assets	52,627			52,137			49,933		
Assets of consolidated investment management funds	11,524			11,503			11,284		
Total assets	$337,455			$333,664			$305,002		
Liabilities									
Interest-bearing liabilities:									
Interest-bearing deposits:									
Money market rate accounts and demand deposit accounts	$8,183	0.22	%	$8,778	0.19	%	$8,421	0.24	%
Savings	897	0.24		819	0.29		702	0.13	
Time deposits	41,706	0.04		39,091	0.05		33,180	0.11	
Foreign offices	100,433	0.07		99,040	0.08		88,179	0.13	
Total interest-bearing deposits	151,219	0.07		147,728	0.08		130,482	0.13	
Federal funds purchased and securities sold under repurchase agreements	9,206	(0.28)		9,187	(0.12)		11,254	0.01	
Trading liabilities	3,036	1.40		2,552	1.35		1,256	1.87	
Other borrowed funds	1,385	0.20		1,152	0.90		1,114	1.88	
Commercial paper	58	0.04		245	0.09		1,436	0.29	
Payables to customers and broker-dealers	9,073	0.08		9,019	0.09		7,895	0.10	
Long-term debt	19,002	0.94		18,878	1.18		20,084	1.67	
Total interest-bearing liabilities	$192,979	0.16	%	$188,761	0.20	%	$173,521	0.32	%
Total noninterest-bearing deposits	70,648			70,337			62,860		
Other liabilities	26,779			27,416			23,588		

Liabilities and obligations of consolidated investment management funds	10,242	10,186	10,072
Total liabilities	300,648	296,700	270,041
Temporary equity			
Redeemable noncontrolling interests	189	175	78
Permanent equity			
Total BNY Mellon shareholders' equity	35,817	35,966	34,183
Noncontrolling interests	801	823	700
Total permanent equity	36,618	36,789	34,883
Total liabilities, temporary equity and permanent equity	$337,455	$333,664	$305,002
Net interest margin (FTE)	1.15 %	1.11 %	1.25 %

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

Average balances and interest rates	Year-to-date			
	June 30, 2013		June 30, 2012	
(dollar amounts in millions, presented on an FTE basis)	Average balance	Average rates	Average balance	Average rates
Assets				
Interest-earning assets:				
Interest-bearing deposits with banks (primarily foreign banks)	$41,874	0.67 %	$36,784	1.14 %
Interest-bearing deposits held at the Federal Reserve and other central banks	59,555	0.21	60,715	0.27
Federal funds sold and securities purchased under resale agreements	7,679	0.53	5,333	0.67
Margin loans	13,627	1.15	13,116	1.28
Non-margin loans:				
Domestic offices	21,524	2.39	19,895	2.49
Foreign offices	11,949	1.34	10,089	1.81
Total non-margin loans	33,473	2.02	29,984	2.26
Securities:				
U.S. government obligations	19,353	1.57	16,328	1.61
U.S. government agency obligations	45,028	1.82	35,709	2.33
State and political subdivisions – tax-exempt	6,286	2.32	4,066	2.78
Other securities	33,873	1.98	33,231	2.67
Trading securities	6,376	2.36	2,776	2.67
Total securities	110,916	1.88	92,110	2.36
Total interest-earning assets	$267,124	1.26 %	$238,042	1.53 %
Allowance for loan losses	(250)		(387)	
Cash and due from banks	4,798		4,341	
Other assets	52,383		49,812	
Assets of consolidated investment management funds	11,514		11,364	
Total assets	$335,569		$303,172	
Liabilities				
Interest-bearing liabilities:				
Interest-bearing deposits:				
Money market rate accounts and demand deposit accounts	$8,479	0.20 %	$6,433	0.25 %
Savings	859	0.26	703	0.12
Time deposits	40,406	0.05	33,399	0.10
Foreign offices	99,740	0.08	87,424	0.14
Total interest-bearing deposits	149,484	0.08	127,959	0.14
Federal funds purchased and securities sold under repurchase agreements	9,197	(0.20)	9,919	—
Trading liabilities	2,795	1.38	1,205	1.72
Other borrowed funds	1,269	0.51	1,813	1.14
Commercial paper	151	0.08	751	0.29
Payables to customers and broker-dealers	9,046	0.08	7,725	0.11
Long-term debt	18,940	1.06	20,311	1.73
Total interest-bearing liabilities	$190,882	0.19 %	$169,683	0.34 %
Total noninterest-bearing deposits	70,493		64,737	
Other liabilities	27,095		23,919	
Liabilities and obligations of consolidated investment management funds	10,214		10,115	
Total liabilities	298,684		268,454	
Temporary equity				

Redeemable noncontrolling interests	182		75	
Permanent equity				
Total BNY Mellon shareholders’ equity	35,891		33,950	
Noncontrolling interests	812		693	
Total permanent equity	36,703		34,643	
Total liabilities, temporary equity and permanent equity	$335,569		$303,172	
Net interest margin (FTE)	1.13	%	1.28	%

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.

Noninterest expense

Noninterest expense									
				2Q13 vs.		Year-to-date		YTD13 vs.
(dollars in millions)	2Q13	1Q13	2Q12	2Q12	1Q13	2013	2012	YTD12
Staff:								
Compensation	$891	$885	$866	3 %	1 %	$1,776	$1,727	3 %
Incentives	364	338	311	17	8	702	663	6
Employee benefits	254	249	238	7	2	503	478	5
Total staff	1,509	1,472	1,415	7	3	2,981	2,868	4
Professional, legal and other purchased services	317	295	309	3	7	612	608	1
Net occupancy	159	163	141	13	(2)	322	288	12
Software	157	140	127	24	12	297	246	21
Distribution and servicing	111	106	103	8	5	217	204	6
Furniture and equipment	81	88	82	(1)	(8)	169	168	1
Business development	90	68	71	27	32	158	127	24
Sub-custodian	77	64	70	10	20	141	140	1
Other	215	307	254	(15)	(30)	522	474	10
Amortization of intangible assets	93	86	97	(4)	8	179	193	(7)
M&I, litigation and restructuring charges	13	39	378	N/M	N/M	52	487	N/M
Total noninterest expense - GAAP	$2,822	$2,828	$3,047	(7)%	— %	$5,650	$5,803	(3)%
Total staff expense as a percentage of total revenue	38 %	41 %	39 %			39 %	39 %	
Full-time employees at period end	49,800	49,700	48,300	3 %	— %	49,800	48,300	3 %
Memo:								
Total noninterest expense excluding amortization of intangible assets and M&I, litigation and restructuring charges - Non-GAAP	$2,716	$2,703	$2,572	6 %	— %	$5,419	$5,123	6 %

N/M - Not meaningful.

Total noninterest expense decreased $225 million, or 7%, compared with the second quarter of 2012 and was essentially unchanged compared with the first quarter of 2013. Excluding amortization of intangible assets, merger and integration ("M&I"), litigation and restructuring charges, noninterest expense increased 6% year-over-year and was stable sequentially. The year-over-year increase primarily reflects higher staff, software and business development expenses, partially offset by a decrease in the reserve for administrative errors in certain offshore tax-exempt funds.

Staff expense

Given our mix of fee-based businesses, which are staffed with high-quality professionals, staff expense comprised 56% of total noninterest expense in the second quarter of 2013, 55% in the second quarter of 2012 and 54% in the first quarter of 2013, excluding amortization of intangible assets and M&I, litigation and restructuring charges.

Staff expense was $1.5 billion in the second quarter of 2013, an increase of 7% compared with the second quarter of 2012 and an increase of 3% compared with the first quarter of 2013. Both increases primarily reflect higher incentive expense driven by improved performance. The year-over-year increase was also impacted by higher compensation and pension expenses.

Non-staff expense

Non-staff expense, excluding amortization of intangible assets and M&I, litigation and restructuring charges, totaled $1.2 billion in the second quarter of 2013, an increase of 4% compared with the second quarter of 2012 and a decrease of 2% compared with the first quarter of 2013. The increase primarily reflects higher software, business development, occupancy and volume-related expenses, partially offset by a decrease in the reserve for administrative errors in certain offshore tax-exempt funds. The increase in software expense was largely related to periodic reimbursable customer technology expenditures. Reimbursement for these expenses is included in fee revenue. The increase in business development expense primarily reflects our corporate branding investments. The sequential decrease primarily reflects a decrease in the reserve for administrative errors in certain offshore tax-exempt funds, partially offset by higher business development, consulting, volume-related and software expenses.

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 our legal proceedings, see Note 18 of the Notes to Consolidated Financial Statements.

Year-to-date 2013 compared with year-to-date 2012

Noninterest expense in the first six months of 2013 decreased $153 million, or 3% compared with the first six months of 2012. The decrease primarily reflects the litigation charge recorded in the second quarter of 2012, partially offset by higher staff, software, occupancy and business development expenses and a reserve for administrative errors in certain offshore tax-exempt funds.

Operational excellence initiatives update

Expense initiatives (pre-tax)				Original annualized
	Program savings			targeted savings by
(dollar amounts in millions)	FY12	1Q13	2Q13	the end of 2013 (a)
Business operations	$238	$84	$93	$310 - $320
Technology	82	27	30	$105 - $110
Corporate services	77	26	27	$85 - $90
Gross savings (b)	$397	$137	$150	$500 - $520
Incremental program expenses to achieve goals (c)	$88	$16	$11	$70 - $90

(a) Original target established at the inception of the program in 2011.

(b) 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.

(c) Program costs include incremental costs to plan and execute the programs including dedicated program managers, consultants, severance and other costs. These costs will fluctuate by quarter. Program costs may include restructuring expenses, where applicable.

During the first half of 2013, we accomplished the following operational excellence initiatives:

- Continued global footprint position migrations. Lowered operating costs as we ramped up the Eastern European Global Delivery Center and continued job migrations to our existing Global Delivery Centers.
- Realized savings from business restructuring and management rationalization in Investment Services.
- Realized savings from reengineering activities relating to investment management boutique restructurings and Dreyfus back office operations consolidation.
- Realized compensation savings from efficiencies and additional staff moves to Global Delivery Centers in the Technology organization.
- Consolidated offices and reduced real estate by an additional 100,000 square feet, primarily in the New York Metro region.

Income taxes

The provision for income taxes and effective tax rate were $321 million and 26.6%, respectively, in the second quarter of 2013 and $93 million and 15.8%, respectively, in the second quarter of 2012. The provision for income taxes and the effective tax rate for the second quarter of 2013 primarily reflect a gain related to an equity investment and the termination of investments in certain tax credits. The effective tax rate in the second quarter of 2012 included a reduction of approximately 9% related to a litigation charge. The provision for income taxes was $1.0 billion in the first quarter of 2013, including the $854 million charge related to the disallowance of certain foreign tax credits. The effective tax rate on an operating basis (Non-GAAP) was 23.7% in the first quarter of 2013. See “Supplemental information - Explanation of Non-GAAP financial measures” beginning on page 52 for additional information.

We expect the effective tax rate to be approximately 26% in third quarter of 2013.

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.

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 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.

Business results are subject to reclassification whenever improvements are made in the measurement principles or when organizational

changes are made. Internal crediting rates for deposits are regularly updated to reflect the value of deposit balances and distribution of overall interest revenue. In the second quarter of 2013, lower internal crediting rates were applied to deposits in the Investment Management and Investment Services businesses. There was no impact to our consolidated financial results.

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

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

Market indices						2Q13 vs.		Year-to-date		YTD13 vs.
	2Q12	3Q12	4Q12	1Q13	2Q13	2Q12	1Q13	2013	2012	YTD12
S&P 500 Index (a)	1362	1441	1426	1569	1606	18 %	2 %	1606	1362	18 %
S&P 500 Index – daily average	1351	1400	1419	1513	1609	19	6	1562	1349	16
FTSE 100 Index (a)	5571	5742	5898	6412	6215	12	(3)	6215	5571	12
FTSE 100 Index – daily average	5555	5742	5842	6294	6438	16	2	6365	5690	12
MSCI World Index (a)	1236	1312	1339	1435	1434	16	—	1434	1236	16
MSCI World Index – daily average	1235	1273	1312	1404	1463	18	4	1434	1250	15
Barclay's Capital Aggregate Bond^{sm} Index (a)	353	368	366	356	343	(3)	(4)	343	353	(3)
NYSE and NASDAQ share volume (in billions)	192	173	174	174	186	(3)	7	360	378	(5)
JPMorgan G7 Volatility Index – daily average (b)	10.30	8.70	7.56	9.02	9.84	(4)	9	9.43	10.35	(9)

(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 in Investment Services, is impacted by the value of market indices. At June 30, 2013, using the Standard & Poor's ("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

spread evenly throughout the year, would impact fee revenue by less than 1% and diluted earnings per common share by $0.02 to $0.04. If however, global equity markets do not perform in line with the S&P 500 Index, the impact to fee revenue and earnings per share could be different.

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

For the quarter ended June 30, 2013 (dollar amounts in millions)	Investment Management		Investment Services		Other		Consolidated	
Fee and other revenue	$922	(a)	$1,972		$319		$3,213	(a)
Net interest revenue	63		633		61		757	
Total revenue	985		2,605		380		3,970	
Provision for credit losses	—		—		(19	)	(19	)
Noninterest expense	713		1,878		231		2,822	
Income before taxes	$272	(a)	$727		$168		$1,167	(a)
Pre-tax operating margin (b)	28	%	28	%	N/M		29	%
Average assets	$37,953		$244,803		$54,699		$337,455	
Excluding amortization of intangible assets:								
Noninterest expense	$674		$1,824		$231		$2,729	
Income (loss) before taxes	311	(a)	781		168		1,260	(a)
Pre-tax operating margin (b)	32	%	30	%	N/M		32	%

(a) Total fee and other revenue includes income from consolidated investment management funds of $65 million, net of noncontrolling interests of $39 million, for a net impact of $26 million. Income before taxes includes noncontrolling interests of $39 million.
(b) Income before taxes divided by total revenue.
N/M - Not meaningful.

For the quarter ended March 31, 2013 (dollar amounts in millions)	Investment Management		Investment Services		Other		Consolidated	
Fee and other revenue	$891	(a)	$1,862		$125		$2,878	(a)
Net interest revenue	62		653		4		719	
Total revenue	953		2,515		129		3,597	
Provision for credit losses	—		1		(25	)	(24	)
Noninterest expense	743		1,843		242		2,828	
Income (loss) before taxes	$210	(a)	$671		$(88	)	$793	(a)
Pre-tax operating margin (b)	22	%	27	%	N/M		22	%
Average assets	$38,743		$240,188		$54,733		$333,664	
Excluding amortization of intangible assets:								
Noninterest expense	$704		$1,796		$242		$2,742	
Income (loss) before taxes	249	(a)	718		(88	)	879	(a)
Pre-tax operating margin (b)	26	%	29	%	N/M		24	%

(a) Total fee and other revenue includes income from consolidated investment management funds of $50 million, net of noncontrolling interests of $16 million, for a net impact of $34 million. Income before taxes includes noncontrolling interests of $16 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	$858	(a)	$1,880		$116		$2,854	(a)
Net interest revenue	52		607		75		734	
Total revenue	910		2,487		191		3,588	
Provision for credit losses	—		(14	)	(5	)	(19	)

Noninterest expense	690	2,141	216	3,047
Income (loss) before taxes	$220 (a)	$360	$(20)	$560 (a)
Pre-tax operating margin (b)	24 %	14 %	N/M	16 %
Average assets	$35,603	$210,064	$59,335	$305,002
Excluding amortization of intangible assets:				
Noninterest expense	$642	$2,092	$216	$2,950
Income (loss) before taxes	268 (a)	409	(20)	657 (a)
Pre-tax operating margin (b)	29 %	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 six months ended June 30, 2013 (dollar amounts in millions)	Investment Management		Investment Services		Other		Consolidated	
Fee and other revenue	$1,813	(a)	$3,834		$444		$6,091	(a)
Net interest revenue	125		1,286		65		1,476	
Total revenue	1,938		5,120		509		7,567	
Provision for credit losses	—		1		(44	)	(43	)
Noninterest expense	1,456		3,721		473		5,650	
Income before taxes	$482	(a)	$1,398		$80		$1,960	(a)
Pre-tax operating margin (b)	25	%	27	%	N/M		26	%
Average assets	$38,346		$242,508		$54,715		$335,569	
Excluding amortization of intangible assets:								
Noninterest expense	$1,378		$3,620		$473		$5,471	
Income before taxes	560	(a)	1,499		80		2,139	(a)
Pre-tax operating margin (b)	29	%	29	%	N/M		28	%

(a) Total fee and other revenue includes income from consolidated investment management funds of $115 million, net of noncontrolling interests of $55 million, for a net impact of $60 million. Income before taxes includes noncontrolling interests of $55 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

For the six months ended June 30, 2012 (dollar amounts in millions)	Investment Management		Investment Services		Other		Consolidated	
Fee and other revenue	$1,707	(a)	$3,730		$287		$5,724	(a)
Net interest revenue	107		1,249		143		1,499	
Total revenue	1,814		4,979		430		7,223	
Provision for credit losses	—		2		(16	)	(14	)
Noninterest expense	1,358		3,977		468		5,803	
Income (loss) before taxes	$456	(a)	$1,000		$(22	)	$1,434	(a)
Pre-tax operating margin (b)	25	%	20	%	N/M		20	%
Average assets	$35,857		$212,328		$54,987		$303,172	
Excluding amortization of intangible assets:								
Noninterest expense	$1,262		$3,880		$468		$5,610	
Income (loss) before taxes	552	(a)	1,097		(22	)	1,627	(a)
Pre-tax operating margin (b)	30	%	22	%	N/M		23	%

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

Investment Management business

(dollar amounts in millions, unless otherwise noted)	2Q12	3Q12	4Q12	1Q13	2Q13	2Q13 vs. 2Q12	2Q13 vs. 1Q13	Year-to-date 2013	Year-to-date 2012	YTD13 vs. YTD12
Revenue:										
Investment management fees:										
Mutual funds	$270	$283	$293	$295	$295	9 %	— %	$590	$530	11 %
Institutional clients	321	334	349	355	360	12	1	715	643	11
Wealth management	156	154	157	161	165	6	2	326	310	5
Investment management fees	747	771	799	811	820	10	1	1,631	1,483	10
Performance fees	54	10	57	15	33	(39)	N/M	48	70	(31)
Distribution and servicing	45	47	50	46	44	(2)	(4)	90	90	—
Other (a)	12	41	25	19	25	N/M	N/M	44	64	(31)
Total fee and other revenue (a)	858	869	931	891	922	7	3	1,813	1,707	6
Net interest revenue	52	51	56	62	63	21	2	125	107	17
Total revenue	910	920	987	953	985	8	3	1,938	1,814	7
Noninterest expense (ex. amortization of intangible assets)	642	644	713	704	674	5	(4)	1,378	1,262	9
Income before taxes (ex. amortization of intangible assets)	268	276	274	249	311	16	25	560	552	1
Amortization of intangible assets	48	48	48	39	39	(19)	—	78	96	(19)
Income before taxes	$220	$228	$226	$210	$272	24 %	30 %	$482	$456	6 %
	24 %	25 %	23 %	22 %	28 %			25 %	25 %	

Pre-tax operating margin										
Pre-tax operating margin (ex. amortization of intangible assets and net of distribution and servicing expense) (b)	33 %	34 %	31 %	29 %	36 %			32 %	34 %	
Wealth management:										
Average loans	$7,763	$8,122	$8,478	$8,972	$9,253	19 %	3 %	$9,113	$7,597	20 %
Average deposits	$10,893	$10,882	$12,332	$13,646	$13,306	22 %	(2)%	$13,475	$11,011	22 %

(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 52. 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 $102 million, $107 million, $106 million, $104 million, $110 million, $214 million and $202 million for each of the periods presented above, respectively.

N/M - Not meaningful.

AUM trends (a)						2Q13 vs.	
(dollar amounts in billions)	2Q12	3Q12	4Q12	1Q13	2Q13	2Q12	1Q13
AUM at period end, by product type:							
Equity securities	$417	$446	$451	$487	$493	18 %	1 %
Fixed income securities (b)	480	506	532	559	558	16 %	— %
Money market	299	307	302	278	277	(7)%	— %
Alternative investments and overlay	103	100	101	105	104	1 %	(1)%
Total AUM	$1,299	$1,359	$1,386	$1,429	$1,432	10 %	— %
AUM at period end, by client type:							
Institutional	$835	$883	$894	$939	$969	16 %	3 %
Mutual funds	388	398	411	405	378	(3)%	(7)%
Private client	76	78	81	85	85	12 %	— %
Total AUM	$1,299	$1,359	$1,386	$1,429	$1,432	10 %	— %
Changes in AUM:							
Beginning balance of AUM	$1,308	$1,299	$1,359	$1,386	$1,429		
Net inflows (outflows):							
Long-term	26	9	14	40	21		
Money market	(14)	9	(6)	(13)	(1)		
Total net inflows (outflows)	12	18	8	27	20		
Net market/currency impact	(21)	42	19	16	(17)		
Ending balance of AUM	$1,299	$1,359	$1,386	$1,429	$1,432	10 %	— %

(a) Excludes securities lending cash management assets and assets managed in the Investment Services business.
(b) Includes liability-driven investments.

Business description

Our Investment Management business is comprised of our affiliated investment management boutiques, wealth management business and global distribution companies. See page 22 of our 2012 Annual Report for additional information on our Investment Management business.

Review of financial results

Investment management and performance fees are dependent on the overall level and mix of AUM and the management fees expressed in basis points (one-hundredth of one percent) charged for managing those assets. Assets under management were $1.43 trillion at June 30, 2013 compared with $1.30 trillion at June 30, 2012 and $1.43 trillion at March 31, 2013. The increase compared with June 30, 2012 primarily resulted from net new business and higher market values. Sequentially, net new business was primarily offset by lower fixed income market values. Net long-term inflows were $21 billion in the second quarter of 2013 and benefited from liability-driven investment as well as equity and fixed income funds. Net short-term outflows were $1 billion in the second quarter of 2013.

Revenue generated in the Investment Management business included 47% from non-U.S. sources in the second quarter of 2013 compared with 44% in both the second quarter of 2012 and first quarter of 2013.

In the second quarter of 2013, Investment Management had pre-tax income of $272 million compared with $220 million in the second quarter of 2012 and $210 million in the first quarter of 2013. Excluding amortization of intangible assets, pre-tax income was $311 million in the second quarter of 2013 compared with $268 million in the second quarter of 2012 and $249 million in the first quarter of 2013. Both increases primarily reflect higher equity market values and net new business, partially offset by a stronger U.S. dollar and higher money market fee waivers. The year-over-year increase also reflects the impact of the acquisition of the remaining 50% interest in Meriten Investment Management ("Meriten").

Investment management fees in the Investment Management business were $820 million in the second quarter of 2013 compared with $747 million in the second quarter of 2012 and $811 million in the first quarter of 2013. The year-over-year increase was primarily driven by higher market values, net new business and the impact of the Meriten acquisition, partially offset by the stronger U.S. dollar and higher money market fee waivers. The sequential increase was primarily driven by net new business and higher equity market values, partially offset by higher money market fee waivers and the stronger U.S. dollar.

Performance fees were $33 million in the second quarter of 2013 compared with $54 million in the second quarter of 2012 and $15 million in the first quarter of 2013. The sequential increase was due to seasonality.

In the second quarter of 2013, 36% of investment management fees in the Investment Management business were generated from managed mutual fund fees. These fees are based on the daily average net assets of each fund and the management fee paid by that fund. Managed mutual fund fee revenue was $295 million in the second quarter of 2013 compared with $270 million in the second quarter of 2012 and $295 million in the first quarter of 2013. The increase compared with the second quarter of 2012 primarily resulted from higher market values and net new business.

Net interest revenue was $63 million in the second quarter of 2013 compared with $52 million in the second quarter of 2012 and $62 million in the first quarter of 2013. The year-over-year increase resulted from higher average loans and deposits driven by new business. The sequential increase primarily reflects higher average loans, partially offset by lower internal crediting rates for deposits in the second quarter of 2013. Average loans increased 19% year-over-year and 3% sequentially, while average deposits increased 22% year-over-year and decreased 2% sequentially.

Noninterest expense excluding amortization of intangible assets was $674 million in the second quarter of 2013 compared with $642 million in the second quarter of 2012 and $704 million in the first quarter of 2013. The year-over-year increase primarily reflects higher incentive expense, the impact of the Meriten acquisition and higher distribution and servicing expense, partially offset by a decrease in the reserve for administrative errors in certain offshore tax-exempt funds and a stronger U.S. dollar. The sequential decrease primarily reflects a decrease in the reserve for administrative errors in certain offshore tax-exempt funds and a stronger U.S. dollar, partially offset by higher incentive expense.

Year-to-date 2013 compared with year-to-date 2012

Income before taxes totaled $482 million in the first six months of 2013 compared with $456 million in the first six months of 2012. Income before taxes (excluding intangible amortization) was $560 million in the first six months of 2013 compared with $552 million in the first six months of 2012. Fee and other revenue increased $106 million compared to the first six months of 2012, primarily due to higher market values, net new business and the impact of the Meriten acquisition, partially offset by lower performance fees, a stronger U.S. dollar and lower seed capital gains. Net interest revenue increased $18 million compared to the first six months of 2012 primarily as a result of higher average loan and deposit levels. Noninterest expense (excluding intangible amortization) increased $116 million compared to the first six months of 2012, primarily due to the impact of the Meriten acquisition, higher incentives, the provision for administrative errors in certain offshore tax-exempt funds and higher distribution and servicing expense.

Investment Services business

(dollar amounts in millions, unless otherwise noted)	2Q12	3Q12	4Q12	1Q13	2Q13	2Q13 vs. 2Q12	2Q13 vs. 1Q13	Year-to-date 2013	Year-to-date 2012	YTD1 vs. YTD1
Revenue:										
Investment services fees:										
Asset servicing	$919	$913	$916	$943	$961	5 %	2 %	$1,904	$1,834	4
Issuer services	275	310	213	236	294	7	25	$530	526	1
Clearing services	309	287	294	304	321	4	6	$625	612	2
Treasury services	129	131	136	137	135	5	(1)	$272	260	5
Total investment services fees	1,632	1,641	1,559	1,620	1,711	5	6	3,331	3,232	3
Foreign exchange and other trading revenue	179	158	128	172	194	8	13	$366	355	3
Other (a)	69	77	75	70	67	(3)	(4)	$137	143	(4
Total fee and other revenue (a)	1,880	1,876	1,762	1,862	1,972	5	6	3,834	3,730	3
Net interest revenue	607	608	583	653	633	4	(3)	$1,286	1,249	3
Total revenue	2,487	2,484	2,345	2,515	2,605	5	4	5,120	4,979	3
Provision for credit losses	(14)	(4)	—	1	—	N/M	N/M	$1	2	(50
Noninterest expense (ex. amortization of intangible assets)	2,092	1,734	1,766	1,796	1,824	(13)	2	$3,620	3,880	(7
Income before taxes (ex. amortization of intangible assets)	409	754	579	718	781	91	9	1,499	1,097	37
Amortization of intangible assets	49	47	48	47	54	10	15	$101	97	4
Income before taxes	$360	$707	$531	$671	$727	102 %	8 %	$1,398	$1,000	40
	14 %	28 %	23 %	27 %	28 %			27 %	20 %	

Pre-tax operating margin										
Pre-tax operating margin (ex. amortization of intangible assets)	16 %	30 %	25 %	29 %	30 %			29 %	22 %	
Investment services fees as a percentage of noninterest expense (b)	94 %	96 %	90 %	92 %	94 %			93 %	94 %	
Securities lending revenue	$48	$37	$31	$31	$39	(19)%	26 %	$70	$87	
Metrics:										
Average loans	$25,611	$24,917	$24,868	$26,697	$27,814	9 %	4 %	$27,259	$26,121	4
Average deposits	$173,087	$188,743	$204,164	$200,221	$204,499	18 %	2 %	$202,372	$174,307	16
AUC/A at period end (in trillions) (c)	$25.2	$26.4	$26.3	$26.3	$26.2	4 %	— %			
Market value of securities on loan at period end (in billions) (d)	$267	$251	$237	$244	$255	(4)%	5 %			
Asset servicing:										
Estimated new business wins (AUC/A) (in billions)	$314	$522	$190	$205	$201					
Depositary Receipts:										
Number of sponsored programs	1,393	1,393	1,379	1,359	1,349	(3)%	(1)%			
Clearing services:										
Global DARTS	191.9	175.5	187.9	221.4	227.5	19 %	3 %			

volume (in thousands)							
Average active clearing accounts (U.S. platform) (in thousands)	5,421	5,447	5,489	5,552	5,591	3 %	1 %
Average long-term mutual fund assets (U.S. platform)	$306,973	$323,289	$334,883	$357,647	$371,196	21 %	4 %
Average investor margin loans (U.S. platform)	$8,231	$7,922	$7,987	$8,212	$8,235	— %	— %
Broker-Dealer:							
Average tri-party repo balances (in billions)	$2,001	$2,005	$2,113	$2,070	$2,037	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 AUC/A of CIBC Mellon Global Securities Services Company ("CIBC Mellon"), a joint venture with the Canadian Imperial Bank of Commerce, of $1.2 trillion at June 30, 2012 and Sept. 30, 2012, $1.1 trillion at Dec. 31, 2012, $1.2 trillion at March 31, 2013 and $1.1 trillion at June 30, 2013.
(d) Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities on loan at CIBC Mellon.

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 services, as well as clearing services and global payment/working capital solutions to institutional clients.

Our comprehensive suite of financial solutions includes: global custody, global fund services, securities lending, investment manager outsourcing, performance and risk analytics, alternative investment services, securities clearance, collateral management, corporate trust, American and global depositary receipt programs, cash management solutions, payment services, liquidity services and other linked revenues, principally foreign exchange, global clearing and execution, managed account services and global prime brokerage solutions. Our clients include corporations, public funds and government agencies, foundations and endowments; global financial institutions including banks, broker-dealers, asset managers, insurance companies and central banks; financial intermediaries and independent registered investment advisors and hedge fund managers. We help our clients service their financial assets through a network of offices and operations centers in 35 countries across six continents.

The results of this business are driven by a number of factors which include: the level of transaction activity; the range of services provided, including custody, accounting, fund administration, daily valuations, performance measurement and risk analytics, securities lending, and investment manager back-office outsourcing; the number of accounts; and the market value of assets under custody and/or administration. Market interest rates impact both securities lending revenue and the earnings on client deposit balances. Business expenses are driven by staff, technology investment, equipment and space required to support the services provided by the business and the cost of execution, clearance and custody of securities.

We are one of the leading global securities servicing providers with $26.2 trillion of assets under custody and/or administration at June 30, 2013. We are the largest custodian for U.S. corporate and public pension plans and we service 46% of the top 50 endowments. We are a leading custodian in the UK

and service 20% of UK pensions that require a custodian. Globalization tends to drive cross-border investment and capital flows, which increases the opportunity to provide solutions to our clients. The changing regulatory environment is also driving demand for new products and services among clients.

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 a leader in servicing tri-party repo collateral with approximately $2.0 trillion globally. We currently service approximately $1.4 trillion of the $1.7 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 82% 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 significantly reduce the risk associated with the secured intraday credit we provide with respect to the tri-party repo market. BNY Mellon has implemented several measures in that regard, including reducing the amount of time we extend intraday credit, implementing three-way trade confirmations, and automating the way dealers can substitute collateral in their tri-party repo trades. Additionally, in 2013, we have limited the eligibility for intraday credit associated with tri-party repo transactions to certain more liquid asset classes that will result in a reduction of exposures secured by less liquid forms of collateral by dealers. These efforts are consistent with the recommendations of 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. We anticipate that the combination of these measures will reduce 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.

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/banking/tpr_infr_reform.html.

In 2012, we formed Global Collateral Services which 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.

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 30 markets.

We serve as depositary for 1,349 sponsored American and global depositary receipt programs at June 30, 2013, acting in partnership with leading companies from 64 countries - an estimated 60% global market share.

Pershing and its affiliates provide business solutions to approximately 1,600 financial organizations globally by delivering dependable operational support; robust trading services; flexible technology; an expansive array of investment solutions, 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 documents. 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

AUC/A at June 30, 2013 were $26.2 trillion, an increase of 4% from $25.2 trillion at June 30, 2012 and a slight decrease from $26.3 trillion at March 31, 2013. The year-over-year increase was driven by higher equity market values and net new business. The slight sequential decrease primarily reflects lower fixed income market values. AUC/A were comprised of 34% equity securities and 66% fixed income securities at June 30, 2013 and 33% equity securities and 67% fixed income securities at March 31, 2013.

Income before taxes was $727 million in the second quarter of 2013 compared with $360 million in the second quarter of 2012 and $671 million in the first quarter of 2013. Income before taxes, excluding amortization of intangible assets, was $781 million in the second quarter of 2013 compared with $409 million in the second quarter of 2012 and $718 million in the first quarter of 2013. The increase compared with the second quarter of 2012 primarily reflects lower litigation expense and increased core asset servicing fees. The increase sequentially was driven by increased issuer services fees and higher foreign exchange revenue.

Revenue generated in the Investment Services business included 36% from non-U.S. sources in the second quarter of 2013 compared with 36% in the second quarter of 2012 and 32% in the first quarter of 2013.

Investment services fees increased $79 million, or 5%, in the second quarter of 2013 compared with the second quarter of 2012 and $91 million, or 6% (unannualized), compared with the first quarter of 2013, reflecting the following factors:

- Asset servicing fees (global custody, broker-dealer services and global collateral services) were $961 million in the second quarter of 2013 compared with $919 million in the second quarter of 2012 and $943 million in the first quarter of 2013. The year-over-year increase primarily reflects increased core asset servicing fees driven by organic growth and higher market values, partially offset by lower securities lending revenue. The sequential increase primarily resulted from seasonally higher securities lending revenue and increased core asset servicing fees driven by organic growth.
- Issuer services fees (Corporate Trust and Depositary Receipts) were $294 million in the second quarter of 2013, compared with $275 million in the second quarter of 2012 and $236 million in the first quarter of 2013. Both increases primarily resulted from higher fees related to corporate actions and expense reimbursements related to customer technology expenditures.
- Clearing services fees were $321 million in the second quarter of 2013 compared with $309 million in the second quarter of 2012 and $304 million in the first quarter of 2013. Both increases were driven by higher mutual fund fees and clearance revenue reflecting an increase in DARTs, partially offset by higher money market fee waivers.
- Treasury services fees were $135 million in the second quarter of 2013 compared with $129 million in the second quarter of 2012 and $137 million in the first quarter of 2013. The year-over-year increase primarily reflects higher cash management fees.

Foreign exchange and other trading revenue totaled $194 million in the second quarter of 2013, compared with $179 million in the second quarter of 2012 and $172 million in the first quarter of 2013. Both increases primarily reflect higher volatility and increased volumes.

Net interest revenue was $633 million in the second quarter of 2013 compared with $607 million in the second quarter of 2012 and $653 million in the first quarter of 2013. The year-over-year increase primarily reflects higher average deposits and loans. The sequential decrease primarily reflects lower internal crediting rates for deposits in the second quarter of 2013.

Noninterest expense, excluding amortization of intangible assets, was $1.8 billion in the second quarter of 2013, compared with $2.1 billion in the second quarter of 2012 and $1.8 billion in the first quarter of 2013. Comparisons with both prior periods reflect higher software and equipment expense related to reimbursable customer technology expenditures, and a decrease in the deposit levy imposed on Belgian banks. Expense reimbursements are included in fee revenue. The year-over-year decrease resulted from lower litigation expense, partially offset by higher staff and volume-related expenses. Sequentially, higher volume-related and staff expenses partially offset lower litigation expense.

Year-to-date 2013 compared with year-to-date 2012

Income before taxes totaled $1.4 billion in the first six months of 2013 compared with $1.0 billion in the first six months of 2012. Excluding intangible amortization, income before taxes increased $402 million. Fee and other revenue increased $104 million reflecting increased core asset servicing fees driven by organic growth and higher market values, higher mutual fund fees, clearance revenue and higher cash management fees, partially offset by lower securities lending revenue and higher money market fee waivers. The $37 million increase in net interest revenue primarily reflects higher average deposits and loans. Noninterest expense (excluding intangible amortization) decreased $260 million primarily due to lower litigation expense, partially offset by higher staff and volume-related expenses.

Other segment

						Year-to-date	
(dollars in millions)	2Q12	3Q12	4Q12	1Q13	2Q13	2013	2012
Revenue:							
Fee and other revenue	$116	$156	$188	$125	$319	$444	$287
Net interest revenue	75	90	86	4	61	65	143
Total revenue	191	246	274	129	380	509	430
Provision for credit losses	(5)	(1)	(61)	(25)	(19)	(44)	(16)
Noninterest expense (ex. M&I and restructuring charges)	194	219	223	237	228	465	437
Income (loss) before taxes (ex. M&I and restructuring charges)	2	28	112	(83)	171	88	9
M&I and restructuring charges	22	13	27	5	3	8	31
Income (loss) before taxes	$(20)	$15	$85	$(88)	$168	$80	$(22)
Average loans and leases	$9,618	$9,389	$10,267	$10,610	$10,846	$10,728	$9,382

See pages 27 and 28 of our 2012 Annual Report for a description of the Other segment.

Review of financial results

The Other segment had pre-tax income of $168 million in the second quarter of 2013 compared with a pre-tax loss of $20 million in the second quarter of 2012 and a pre-tax loss of $88 million in the first quarter of 2013.

Total fee and other revenue increased $203 million compared with the second quarter of 2012 and $194 million compared with the first quarter of 2013. Both increases were driven by the gain related to our ConvergEx equity investment.

Net interest revenue decreased $14 million compared with the second quarter of 2012 and increased $57 million compared with the first quarter of 2013. The sequential increase reflects lower internal crediting rates to the businesses for deposits in the second quarter of 2013.

The provision for credit losses was a credit of $19 million in the second quarter of 2013 driven by the continued improvement in the credit quality of the loan portfolio.

Noninterest expense (excluding M&I and restructuring charges) increased $34 million compared with the second quarter of 2012 and decreased $9 million compared with the first quarter of 2013. The year-over-year increase resulted from higher staff, net occupancy, and business development expenses related to our corporate branding investments. Sequentially, the decrease primarily reflects a decrease in the cost of generating certain tax credits.

Year-to-date 2013 compared with year-to-date 2012

Income before taxes totaled $80 million in the first six months of 2013 compared with a pre-tax loss of $22 million first six months of 2012. Total revenue increased $79 million primarily reflecting the gain related to our ConvergEx equity investment, partially offset by lower leasing gains and lower foreign currency remeasurement. Noninterest expenses (excluding amortization of intangible assets and M&I and restructuring charges) increased $28 million, reflecting higher staff and net occupancy expenses, as well as higher business development expenses related to our corporate branding initiatives.

Critical accounting estimates

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in our 2012 Annual Report. Our critical accounting estimates are those related to the allowance for loan losses and allowance for lending-related commitments, fair value of financial instruments and derivatives, 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	2012 Annual Report, pages 34 and 35. This policy is also disclosed in the “Asset quality and allowance for credit loss” section of this Form 10-Q.
Fair value of financial instruments and derivatives	2012 Annual Report, pages 35 - 37.
OTTI	2012 Annual Report, page 37.
Goodwill and other intangibles	2012 Annual Report, pages 37 and 38.
Pension accounting	2012 Annual Report, pages 38 - 40.

Consolidated balance sheet review

At June 30, 2013, total assets were $361 billion compared with $359 billion at Dec. 31, 2012. Total assets averaged $337 billion in the second quarter of 2013 compared with $305 billion in the second quarter of 2012 and $334 billion in the first quarter of 2013. Fluctuations in the average total assets were primarily driven by the level of client deposits. Deposits totaled $245 billion at June 30, 2013, and $246 billion at Dec. 31, 2012. Total deposits averaged $222 billion in the second quarter of 2013, $193 billion in the second quarter of 2012 and $218 billion in the first quarter of 2013. At June 30, 2013, total interest-bearing deposits were 56% of total interest-earning assets compared with 52% at Dec. 31, 2012.

At June 30, 2013, we had $52 billion of liquid funds and $84 billion of cash (including $77 billion of overnight deposits with the Federal Reserve and other central banks) for a total of $136 billion of available funds. This compares with available funds of $145 billion at Dec. 31, 2012. The decrease in available funds resulted from the redeployment of funds on our balance sheet from interest-bearing deposits with the Federal Reserve and other central banks as we increased our investment in high-quality securities and the loan portfolio, as well as a lower level of client deposits. Our percentage of available funds to total assets was 38% at June 30, 2013 compared with 40% at Dec. 31, 2012. Of the $52 billion in liquid funds held at June 30, 2013, $42 billion was placed in interest-bearing deposits with large, highly-rated global financial institutions with a weighted-average life to maturity of approximately 68 days. Of the $42 billion, $7 billion was placed with banks in the Eurozone.

Investment securities were $105 billion or 29% of total assets at June 30, 2013, compared with $101 billion or 28% of total assets at Dec. 31, 2012. The increase primarily reflects larger investments in agency RMBS, partially offset by a decrease in the unrealized gain of our investment securities.

Trading assets were $11 billion at June 30, 2013 compared with $9 billion at Dec. 31, 2012. The increase in trading assets resulted from higher levels of securities inventory, partially offset by an increase in long-term interest rates.

Loans were $50 billion or 14% of total assets at June 30, 2013, compared with $47 billion or 13% of total assets at Dec. 31, 2012. The increase in loan levels primarily reflects higher loans in the financial institutions and margin loan portfolios.

Long-term debt totaled $18.5 billion at both June 30, 2013 and Dec. 31, 2012. We issued $1.5 billion of senior debt in the first six months of 2013 which was offset by $750 million of maturities, $300 million of repayments of trust preferred securities and a decrease in the fair value of hedged long-term debt.

Total The Bank of New York Mellon Corporation’s shareholders’ equity was $35.9 billion at June 30, 2013 and $36.4 billion at Dec. 31, 2012. The decrease primarily reflects a decline in the value of the investment securities portfolio, partially offset by $500 million of non-cumulative perpetual preferred stock issued in the second quarter of 2013 and earnings retention.

Exposure in Ireland, Italy, Spain, Portugal and Greece

The following tables present our on- and off-balance sheet exposure in Ireland, Italy and Spain at June 30, 2013 and Dec. 31, 2012. 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 June 30, 2013 and at Dec. 31, 2012, BNY Mellon had exposure of less than $1 million in Portugal and no exposure in Greece. Additionally, BNY Mellon

had no sovereign exposure to the countries disclosed below at either June 30, 2013 or Dec. 31, 2012.
Our exposure in 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 our 2012 Annual Report for additional information on how our exposures are managed.

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

On- and off-balance sheet exposure at June 30, 2013 (in millions)	Ireland	Italy	Spain	Total
On-balance sheet exposure				
Gross:				
Interest-bearing deposits with banks (a)	$96	$334	$23	$453
Investment securities (primarily European Floating Rate Notes) (b)	158	114	—	272
Loans and leases (c)	365	63	4	432
Trading assets (d)	92	29	17	138
Total gross on-balance sheet exposure	711	540	44	1,295
Less:				
Collateral	72	28	15	115
Guarantees	—	2	1	3
Total collateral and guarantees	72	30	16	118
Total net on-balance sheet exposure	$639	$510	$28	$1,177
Off-balance sheet exposure				
Gross:				
Lending-related commitments (e)	$110	$—	$—	$110
Letters of credit (f)	75	4	14	93
Total gross off-balance sheet exposure	185	4	14	203
Less:				
Collateral	100	—	14	114
Total net off-balance sheet exposure	$85	$4	$—	$89
Total exposure:				
Total gross on- and off-balance sheet exposure	$896	$544	$58	$1,498
Less: Total collateral and guarantees	172	30	30	232
Total net on- and off-balance sheet exposure	$724	$514	$28	$1,266

(a) Interest-bearing deposits with banks represent a $95 million placement with an Irish subsidiary of a UK holding company and $358 million of nostro accounts related to our custody activities located in Italy, Spain and Ireland.

(b) Represents $250 million, fair value, of residential mortgage-backed securities located in Ireland and Italy, of which 45% were investment grade, and $22 million, fair value, of investment grade asset-backed CLOs located in Ireland.

(c) Loans and leases include $296 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a $68 million commercial lease to a company located in Ireland, which was fully collateralized by U.S. Treasuries, a $1 million loan to a financial institution located in Ireland, a $61 million overdraft to a financial institution located in Italy, a $3 million overdraft to financial institutions located in Spain 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 Spain and Italy 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 $92 million of receivables primarily due from Irish-domiciled investment funds and $46 million of receivables due from financial institutions in Italy and Spain. Cash collateral on the trading assets totaled $4 million in Ireland, $28 million in Italy and $4 million in Spain. Trading assets located in Spain are also collateralized by $11 million of U.S. Treasuries.

(e) Lending-related commitments include $100 million to an insurance company, collateralized by $24 million of marketable securities, and $10 million to an oil and gas company, fully collateralized by receivables.

(f) Represents $73 million of letters of credit extended to an insurance company in Ireland, collateralized by $66 million of marketable securities, a $2 million letter of credit to an oil and gas company in Ireland, a $4 million letter of credit extended to a financial institution in Italy and a $14 million letter of credit extended to an insurance company in Spain, fully collateralized by marketable securities.

On- and off-balance sheet exposure at Dec. 31, 2012				
(in millions)	Ireland	Italy	Spain	Total
On-balance sheet exposure				
Gross:				
Interest-bearing deposits with banks (a)	$101	$125	$—	$226
Investment securities (primarily European Floating Rate Notes) (b)	164	130	—	294
Loans and leases (c)	166	7	3	176
Trading assets (d)	48	39	15	102
Total gross on-balance sheet exposure	479	301	18	798
Less:				
Collateral	74	38	6	118
Guarantees	—	2	1	3
Total collateral and guarantees	74	40	7	121
Total net on-balance sheet exposure	$405	$261	$11	$677
Off-balance sheet exposure				
Gross:				
Lending-related commitments (e)	$101	$—	$—	$101
Letters of credit (f)	74	4	14	92
Total gross off-balance sheet exposure	175	4	14	193
Less:				
Collateral	91	—	14	105
Total net off-balance sheet exposure	$84	$4	$—	$88
Total exposure:				
Total gross on- and off-balance sheet exposure	$654	$305	$32	$991
Less: Total collateral and guarantees	165	40	21	226
Total net on- and off-balance sheet exposure	$489	$265	$11	$765

(a) Interest-bearing deposits with banks represent a $101 million placement with an Irish subsidiary of a UK holding company and $125 million of nostro accounts related to our custody activities.

(b) Represents $266 million, fair value, of residential mortgage-backed securities located in Ireland and Italy, of which 49% were investment grade, $25 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 $97 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 $2 million loan to a security company located in Ireland, a $5 million overdraft to a financial institution located in Italy, a $2 million custody overdraft to financial institutions located in Spain 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 and Spain 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 $48 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 include $100 million to an insurance company, collateralized by $25 million of marketable securities, and $1 million to an oil and gas company, fully collateralized by receivables.

(f) Represents $72 million of letters of credit extended to an insurance company in Ireland, collateralized by $65 million of marketable securities, a $2 million letter of credit to an oil and gas company in Ireland, 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.

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

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

Investment securities portfolio	March 31, 2013	2Q13 change in unrealized gain/(loss)	June 30, 2013		Fair value as a % of amortized cost (a)	Net unrealized gain/(loss)	Ratings				
(dollars in millions)	Fair value		Amortized cost	Fair value			AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower	Not rated
Agency RMBS	$44,371	$(946)	$45,615	$45,464	100 %	$(151)	100 %	— %	— %	— %	— %
U.S. Treasury securities	20,073	(144)	18,168	18,411	101	243	100	—	—	—	—
Sovereign debt/sovereign guaranteed (b)	10,103	(67)	10,971	11,032	101	61	100	—	—	—	—
Non-agency RMBS (c)	3,083	(104)	2,320	2,880	76	560	—	1	2	97	—
Non-agency RMBS	1,563	(21)	1,482	1,469	91	(13)	2	16	17	65	—
European floating rate notes (d)	3,681	12	3,318	3,231	96	(87)	72	20	2	6	—
Commercial MBS	3,181	(84)	3,646	3,677	101	31	91	8	1	—	—
State and political subdivisions	6,305	(130)	6,522	6,482	99	(40)	82	16	1	1	—
Foreign covered bonds (e)	3,390	(25)	3,195	3,211	100	16	100	—	—	—	—
Corporate bonds	1,572	(40)	1,512	1,527	101	15	20	72	8	—	—
CLO	1,382	(1)	1,363	1,373	101	10	100	—	—	—	—
U.S. Government agency debt	1,060	(23)	1,545	1,548	100	3	100	—	—	—	—
Consumer ABS	2,020	(17)	2,021	2,012	100	(9)	91	9	—	—	—
Other (f)	4,828	(1)	3,150	3,167	101	17	27	67	—	—	6
Total investment securities	$106,612 (g)	$(1,591)	$104,828	$105,484 (g)	101 %	$656	89 %	5 %	1 %	4 %	1 %

(a) Amortized cost before impairments.
(b) Primarily comprised of exposure to UK, Germany, Netherlands and France.
(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 Canada, UK and Germany.
(f) Includes commercial paper of $2.2 billion and $2.1 billion, fair value, and money market funds of $2.5 billion and $918 million, fair value, at March 31, 2013 and June 30, 2013, respectively.
(g)

Includes net unrealized losses on derivatives hedging securities available-for-sale of $111 million at March 31, 2013 and net unrealized gains on derivatives hedging securities available-for-sale of $318 million at June 30, 2013.

The fair value of our investment securities portfolio was $105.5 billion at June 30, 2013 compared with $100.7 billion at Dec. 31, 2012. The increase in the fair value of the investment securities portfolio primarily reflects larger investments in agency RMBS, partially offset by a decrease in the unrealized gain of our investment securities. In the second quarter of 2013, we received $248 million of paydowns and sold $11 million of sub-investment grade securities.

At June 30, 2013, the total investment securities portfolio had a net unrealized pre-tax gain of $656 million compared with $2.4 billion at Dec. 31, 2012. The decline in the valuation of the investment securities portfolio was primarily driven by an increase in long-term interest rates. The unrealized

net of tax gain on our investment securities available-for-sale portfolio included in accumulated other comprehensive income was $488 million at June 30, 2013, compared with $1.3 billion at Dec. 31, 2012.

At June 30, 2013 and Dec. 31, 2012, 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.)

The following table presents the amortizable net purchase premium related to the investment securities portfolio and accretable discount related to the restructuring of the investment securities portfolio.

Net premium amortization and discount accretion of investment securities (a)					
(dollars in millions)	2Q12	3Q12	4Q12	1Q13	2Q13
Amortizable net purchase premium relating to investment securities:					
Balance at period end	$2,334	$2,616	$2,476	$2,685	$2,720
Estimated average life remaining at period end (in years)	4.3	4.0	4.2	4.6	5.1
Amortization	$130	$163	$169	$164	$172
Accretable discount related to the restructuring of the investment securities portfolio:					
Balance at period end	$1,041	$943	$871	$789	$743
Estimated average life remaining at period end (in years)	4.4	5.4	5.3	5.6	6.0
Accretion	$74	$66	$60	$57	$54

(a) Amortization of purchase premium decreased net interest revenue while accretion of discount increased net interest revenue. Both were recorded on a level yield basis.

The increase in the net premium amortization in the second quarter of 2013 primarily related to the purchase of agency RMBS and state and political subdivision securities in the first half of 2013.

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

Net securities gains (losses)					
(in millions)	2Q13	1Q13	2Q12	YTD13	YTD12
U.S. Treasury	$31	$(4)	$44	$27	$82
Commercial MBS	7	8	—	15	—
Foreign covered bonds	—	8	—	8	—
Non-agency RMBS	(3)	4	(27)	1	(41)
Sovereign debt	—	1	61	1	68
European floating rate notes	(10)	4	(22)	(6)	(23)
Other	7	27	(6)	34	4
Total net securities gains	$32	$48	$50	$80	$90

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the second quarter of 2013, this analysis resulted in $19 million of credit losses primarily on European floating rate notes. 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, credit-related impairment charges on these securities would have increased by $1 million (pre-tax) or decreased by $1 million (pre-tax) at June 30, 2013. See Note 4 of the Notes to Consolidated Financial Statements for the projected weighted-average default rates and loss severities.

At June 30, 2013, the investment securities portfolio included $42 million of assets not accruing interest. These securities are held at market value.

The following table shows the fair value of the European floating rate notes by geographical location at June 30, 2013. The unrealized loss on these securities was $87 million at June 30, 2013, an improvement of $12 million compared with $99 million at March 31, 2013.

European floating rate notes at June 30, 2013 (a)

(in millions)	RMBS	Other	Total fair value
United Kingdom	$1,739	$156	$1,895
Netherlands	882	52	934
Ireland	136	22	158
Italy	114	—	114
Australia	65	—	65
Germany	2	63	65
Total fair value	$2,938	$293	$3,231

(a) 72% of these securities are in the AAA to AA- ratings category.

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

Loans

Total exposure – consolidated	June 30, 2013			Dec. 31, 2012		
(in billions)	Loans	Unfunded commitments	Total exposure	Loans	Unfunded commitments	Total exposure
Non-margin loans:						
Financial institutions	$12.9	$15.5	$28.4	$11.3	$15.7	$27.0
Commercial	1.6	19.3	20.9	1.4	18.3	19.7
Subtotal institutional	14.5	34.8	49.3	12.7	34.0	46.7
Wealth management loans and mortgages	9.3	1.8	11.1	8.9	1.7	10.6
Commercial real estate	2.1	1.9	4.0	1.7	1.9	3.6
Lease financings	2.3	—	2.3	2.4	—	2.4
Other residential mortgages	1.5	—	1.5	1.6	—	1.6
Overdrafts	5.5	—	5.5	5.3	—	5.3
Other	0.7	—	0.7	0.6	0.2	0.8
Subtotal non-margin loans	35.9	38.5	74.4	33.2	37.8	71.0
Margin loans	14.4	0.7	15.1	13.4	0.9	14.3
Total	$50.3	$39.2	$89.5	$46.6	$38.7	$85.3

At June 30, 2013, total exposures were $89.5 billion, an increase of 5% from $85.3 billion at Dec. 31, 2012. The increase in total exposure primarily reflects higher loans in the financial institutions portfolio and higher margin loans as well as an increase in unfunded commitments in the commercial loan portfolio.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios made up 55% of our total lending exposure at both June 30, 2013 and Dec. 31, 2012. 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	June 30, 2013							Dec. 31, 2012		
portfolio exposure (dollar amounts in billions)	Loans	Unfunded commitments	Total exposure	% Inv. grade		% due <1 yr		Loans	Unfunded commitments	Total exposure
Banks	$9.0	$ 2.0	$ 11.0	87	%	93	%	$5.6	$ 2.0	$ 7.6
Asset managers	1.2	3.6	4.8	99		70		1.1	3.8	4.9
Securities industry	2.5	1.7	4.2	92		94		4.2	2.1	6.3
Insurance	0.1	4.1	4.2	99		24		0.1	4.3	4.4
Government	—	3.0	3.0	97		26		—	2.1	2.1
Other	0.1	1.1	1.2	97		40		0.3	1.4	1.7
Total	$12.9	$ 15.5	$ 28.4	93	%	69	%	$11.3	$ 15.7	$ 27.0

The financial institutions portfolio exposure was $28.4 billion at June 30, 2013 compared with $27.0 billion at Dec. 31, 2012. The increase primarily reflects higher exposure to banks driven by a higher level of trade finance loans.

Financial institution exposures are high quality, with 93% of the exposures meeting the investment grade equivalent criteria of our internal credit rating classification at June 30, 2013. Each customer is assigned an internal credit rating, which is mapped to an equivalent external rating agency grade based upon a number of dimensions which are continually

evaluated and may change over time. The exposure to financial institutions is generally short-term. Of these exposures, 69% expire within one year, and 37% expire within 90 days. In addition, 34% of the financial institutions 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 is generally capped at a rating equivalent to the sovereign rating of the country where the counterparty resides regardless of the internal credit rating assigned to the counterparty or the underlying collateral.

Our bank exposure primarily relates 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.

The asset manager portfolio exposures are high- quality, with 99% of the exposures meeting our investment grade equivalent ratings criteria as of June 30, 2013. These exposures are generally short-term liquidity facilities, with the vast majority to regulated mutual funds.

Commercial

The diversity of the commercial portfolio is presented in the following table.

Commercial portfolio exposure	June 30, 2013					Dec. 31, 2012		
(dollar amounts in billions)	Loans	Unfunded commitments	Total exposure	% Inv. grade	% due <1 yr	Loans	Unfunded commitments	Total exposure
Services and other	$0.6	$ 6.0	$ 6.6	95 %	14 %	$0.5	$ 5.6	$ 6.1
Energy and utilities	0.7	6.0	6.7	98	10	0.5	5.5	6.0
Manufacturing	0.2	5.7	5.9	88	10	0.3	5.6	5.9
Media and telecom	0.1	1.6	1.7	90	4	0.1	1.6	1.7
Total	$1.6	$ 19.3	$ 20.9	94 %	11 %	$1.4	$ 18.3	$ 19.7

The commercial portfolio exposure increased 6% to $20.9 billion at June 30, 2013, from $19.7 billion at Dec. 31, 2012, primarily reflecting an increase in exposure to the energy and utilities and the services and other portfolios.

The table below summarizes the percentage of the financial institutions and commercial portfolio exposures that are investment grade.

Investment grade percentage of the portfolios

	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013
Financial institutions	92 %	93 %	93 %	93 %	93 %
Commercial	93 %	93 %	93 %	94 %	94 %

Our credit strategy is to focus on investment grade names to support cross-selling opportunities and avoid single name/industry concentrations and our goal is to maintain a predominantly investment grade loan portfolio. The execution of our strategy has resulted in 93% of our financial institutions portfolio and 94% of our commercial portfolio rated as investment grade at June 30, 2013.

Wealth management loans and mortgages

Our Wealth management exposure was $11.1 billion at June 30, 2013 compared with $10.6 billion at Dec. 31, 2012. Wealth management loans and mortgages are primarily comprised 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 64% at origination. In the wealth management portfolio, less than 1% of the mortgages were past due at June 30, 2013.

At June 30, 2013, the wealth management mortgage portfolio was comprised of the following geographic concentrations: New York - 21%; California - 20%; Massachusetts - 16%; Florida - 8%; and other - 35%.

Commercial real estate

Our income producing 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 also include construction and renovation facilities. 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 flows, and supported by appraisals and knowledge of local market conditions. Development loans are structured with moderate leverage, and in many instances, involve some level of recourse to the developer. Our commercial real estate exposure totaled $4.0 billion at June 30, 2013 compared with $3.6 billion at Dec. 31, 2012.

At June 30, 2013, 60% of our commercial real estate portfolio is secured. The secured portfolio is diverse by project type, with 52% secured by residential buildings, 16% secured by office buildings, 12% secured by retail properties, and 20% secured by other categories. Approximately 97% of the unsecured portfolio is comprised of investment grade real estate investment trusts (“REITs”) under revolving credit agreements.

At June 30, 2013, our commercial real estate portfolio is comprised of the following concentrations: New York metro - 46%; investment grade REITs - 39%; and other - 15%.

Lease financings

The leasing portfolio exposure totaled $2.3 billion and included $173 million of airline exposures at June 30, 2013, compared with $2.4 billion of leasing exposures, including $191 million of airline exposures, at Dec. 31, 2012. At June 30, 2013, approximately 85% of the leasing exposure was investment grade.

At June 30, 2013, the $2.1 billion non-airline lease financing portfolio consisted of exposures backed by well-diversified assets, primarily large-ticket transportation equipment.

At June 30, 2013, our $173 million of exposure to the airline industry consisted of $67 million to major U.S. carriers, $86 million to foreign airlines and $20 million to U.S. regional airlines.

Despite the significant improvement in revenues and yields that the U.S domestic airline industry has achieved, high fuel prices pose a significant challenge for these carriers. Combined with their high fixed cost operating models, high debt levels and sensitivity to economic cycles, the domestic airlines remain vulnerable. Accordingly, 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 $1.5 billion at June 30, 2013, compared with $1.6 billion at Dec. 31, 2012. Included in this portfolio at June 30, 2013 are $461 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of June 30, 2013, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 75% 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, the tri-state area (New York, New Jersey and Connecticut) and Maryland.

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

At June 30, 2013, we had $12 million in subprime mortgages included in the 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 included 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 included $5.7 billion of loans at June 30, 2013 and $5.1 billion at Dec. 31, 2012 related to a term loan program that offers fully collateralized loans to broker-dealers.

Asset quality and allowance for credit losses

Over the past several years, we have improved our risk profile through greater focus on clients who are active users of our non-credit services, de-emphasizing broad-based loan growth. Our primary exposure to the credit risk of a customer consists of funded loans, unfunded formal contractual commitments to lend, standby letters of credit and overdrafts associated with our custody and securities clearance businesses.

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

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

Allowance for credit losses activity (dollar amounts in millions)	June 30, 2013	March 31, 2013	Dec. 31, 2012	June 30, 2012
Margin loans	$14,434	$13,242	$13,397	$13,462
Non-margin loans	35,873	35,982	33,232	31,969
Total loans	$50,307	$49,224	$46,629	$45,431
Beginning balance of allowance for credit losses	$358	$387	$456	$494
Provision for credit losses	(19)	(24)	(61)	(19)
Net (charge-offs):				
Other residential mortgages	(2)	(3)	(3)	(5)
Commercial	—	(2)	—	1
Financial institutions	—	—	(5)	(4)
Net (charge-offs)	(2)	(5)	(8)	(8)
Ending balance of allowance for credit losses	$337	$358	$387	$467
Allowance for loan losses	$212	$237	$266	$362
Allowance for lending-related commitments	125	121	121	105
Allowance for loan losses as a percentage of total loans	0.42%	0.48%	0.57%	0.80%
Allowance for loan losses as a percentage of non-margin loans	0.59%	0.66%	0.80%	1.13%
Total allowance for credit losses as a percentage of total loans	0.67%	0.73%	0.83%	1.03%
Total allowance for credit losses as a percentage of non-margin loans	0.94%	0.99%	1.16%	1.46%

Net charge-offs were $2 million in the second quarter of 2013, $8 million in the second quarter of 2012 and $5 million in the first quarter of 2013. Net charge-offs in these periods primarily reflect charge-offs in the other residential mortgage portfolio.

The provision for credit losses was a credit of $19 million in the second quarter of 2013 primarily driven by the continued improvement in the credit quality of the loan portfolio. The provision for credit losses was a credit of $19 million in the second quarter of 2012 and a credit of $24 million in the first quarter of 2013. We anticipate the provision for credit losses to be up to $15 million in the third quarter of 2013.

Given the continuing improvement in U.S. housing prices, the improved demand in major U.S. housing markets, and the improvement in the majority of the internal and environmental risk factors tracked in our qualitative framework, management concluded that a reduction in the qualitative allowance in the first quarter of 2013 was appropriate.

Management

believes our quantitative allowance and reduced level of qualitative allowance adequately reflects incurred losses associated with the aggregate risk at this stage of the economic recovery.

The total allowance for credit losses was $337 million at June 30, 2013 and $387 million at Dec. 31, 2012. The decrease in the allowance for credit losses was primarily driven by the factors mentioned above.

The ratio of the total allowance for credit losses to non-margin loans was 0.94% at June 30, 2013, 1.16% at Dec. 31, 2012 and 1.46% at June 30, 2012. The ratio of the allowance for loan losses to non-margin loans was 0.59% at June 30, 2013 compared with 0.80% at Dec. 31, 2012 and 1.13% at June 30, 2012. The lower ratios at June 30, 2013 compared with both prior periods primarily reflect the decrease in the allowance for credit losses driven by the continued improvement in the credit quality of the loan portfolio.

We had $14.4 billion of secured margin loans on our balance sheet at June 30, 2013 compared with $13.4 billion at Dec. 31, 2012 and $13.5 billion at June 30, 2012. 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 as a percentage of non-margin loans is a more appropriate metric to measure the adequacy of the reserve.

The allowance for loan losses and allowance for lending-related commitments represent management’s estimate of probable losses inherent in our credit portfolio. This evaluation is subject to numerous estimates and judgments.

We utilize a quantitative methodology and qualitative framework for determining the allowance for loan losses and the allowance for lending-related commitments. Within this qualitative 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 three elements of the allowance for loan losses and the allowance for lending-related commitments include the qualitative allowance framework. The three elements 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.

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 internal credit rating. 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 is assigned for each mortgage pool. All residential mortgage pools, except home equity lines of credit, are assigned a probability of default and loss given default based on five years of default and loss data derived from our residential mortgage portfolio. For each pool, the inherent loss is calculated using the above factors. The resulting probable loss factor (the probability of default multiplied by the loss given default) is applied against the loan balance to determine the allowance held for each pool. For home equity lines of credit, probability of default and loss given default are based on external data from third party databases due to the small size of the portfolio and insufficient internal data.

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 industries.

Environmental risk factors:

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

The objective of the qualitative framework is to capture incurred losses that may not have been fully captured in the quantitative reserve, which is based primarily on historical data. Management determines the qualitative allowance each period based on judgment informed by consideration of internal and external risk factors. Once determined in the aggregate, our qualitative allowance is then allocated to each of our loan classes based on the respective classes' quantitative allowance balances with the allocations adjusted, when necessary, for class specific risk factors.

For each risk factor, we calculate the minimum and maximum values, and percentiles in-between, to evaluate the distribution of our historical experience. The distribution of historical experience is compared to the risk factor's current quarter observed experience to assess the current risk inherent in the portfolio and overall direction/trend of a risk factor relative to our historical experience.

Based on this analysis, we assign a risk level – no impact, low, moderate, high and elevated – to each risk factor for the current quarter. Management assesses the impact of each risk factor to determine an aggregate risk level. We do not quantify the impact of any particular risk factor. Management's assessment of the risk factors, as well as the trend in the quantitative allowance, supports management's judgment for the overall required qualitative allowance. A smaller qualitative allowance may be required when our quantitative allowance has reflected incurred losses associated with the aggregate risk level. A greater qualitative allowance may be required if our quantitative allowance does not yet reflect the incurred losses associated with the aggregate risk level.

Our consideration of these factors has remained consistent for the quarter ended June 30, 2013. As discussed above, the improvements in the U.S. housing market, as well as internal and environmental risk factors, resulted in a decrease in the qualitative allowance from Dec. 31, 2012 to March 31, 2013. The qualitative allowance as a percentage of the total allowance was unchanged from March 31, 2013 to June 30, 2013.

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 the allowance for credit losses as discussed in "Critical accounting estimates" on pages 34 and 35 in our 2012 Annual Report, we have allocated our allowance for credit losses as follows:

Allocation of allowance	June 30, 2013	March 31, 2013	Dec. 31, 2012	June 30, 2012
Commercial	28 %	27 %	27 %	22 %
Other residential mortgages	22	23	23	33
Foreign	13	13	12	12
Lease financing	12	11	13	12
Financial institutions	10	9	9	8
Commercial real estate	9	9	8	7
Wealth management (a)	6	8	8	6
Total	100 %	100 %	100 %	100 %

(a) Includes the allowance for wealth management mortgages.

The allocation of the 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 such credits were rated one grade better, the allowance would have decreased by $56 million, while if each credit were rated one grade worse, the allowance would have increased by $82 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by $55 million, while if the loss given default were one rating better, the allowance would have decreased by $40 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 $1 million, respectively.

Nonperforming assets

The following table presents the distribution of nonperforming assets.

Nonperforming assets (dollars in millions)	June 30, 2013	March 31, 2013	Dec. 31, 2012
Nonperforming loans:			
Other residential mortgages	$135	$148	$158
Commercial	24	24	27
Commercial real estate	18	17	18
Wealth management loans and mortgages	13	30	30
Foreign loans	9	9	9
Financial institutions	2	3	3
Total nonperforming loans	201	231	245
Other assets owned	3	3	4
Total nonperforming assets (a)	$204	$234	$249
Nonperforming assets ratio	0.41%	0.48%	0.53%
Nonperforming assets ratio, excluding margin loans	0.6%	0.7%	0.7%
Allowance for loan losses/nonperforming loans	105.5%	102.6%	108.6%
Allowance for loan losses/nonperforming assets	103.9%	101.3%	106.8%
Total allowance for credit losses/nonperforming loans	167.7%	155.0%	158.0%
Total allowance for credit losses/nonperforming assets	165.2%	153.0%	155.4%

(a) Loans of consolidated investment management funds are not part of BNY Mellon’s loan portfolio. Included in these loans are nonperforming loans of $44 million at June 30, 2013, $161 million at March 31, 2013 and $174 million at Dec. 31, 2012. These loans are recorded at fair value and therefore do not impact the provision for credit losses and allowance for loan losses, and accordingly are excluded from the nonperforming assets table above.

Nonperforming assets quarterly activity

(in millions)	June 30, 2013	March 31, 2013	Dec. 31, 2012
Balance at beginning of period	$234	$249	$274
Additions	9	12	12
Return to accrual status	(11)	(11)	(16)
Charge-offs	(3)	(3)	(3)
Paydowns/sales	(24)	(12)	(16)
Transferred to other real estate owned	(1)	(1)	(2)
Balance at end of period	$204	$234	$249

Nonperforming assets were $204 million at June 30, 2013, a decrease of $30 million compared with $234 million at March 31, 2013. The decrease primarily resulted from paydowns in the wealth management loan portfolio and returns to accrual status in the other residential mortgage loan portfolio.

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 our 2012 Annual Report for our policy for placing loans on nonaccrual status.

Deposits

Total deposits were $244.9 billion at June 30, 2013, a decrease of less than 1% compared with $246.1 billion at Dec. 31, 2012. The slight decrease in deposits reflects lower levels of noninterest-bearing deposits primarily offset by higher interest-bearing deposits in non-U.S. offices.

Noninterest-bearing deposits were $82.9 billion at June 30, 2013 compared with $93.0 billion at Dec. 31, 2012. Interest-bearing deposits were $161.9 billion at June 30, 2013 compared with $153.1 billion at Dec. 31, 2012.

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.

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

Federal funds purchased and securities sold under repurchase agreements

	Quarter ended		
(dollar amounts in millions)	June 30, 2013	March 31, 2013	June 30, 2012
Maximum daily balance during the quarter	$13,484	$22,123	$21,818
Average daily balance	$9,206	$9,187	$11,254
Weighted-average rate during the quarter	(0.28)%	(0.12)%	0.01%
Ending balance	$12,600	$8,602	$9,162
Weighted-average rate at period end	(0.26)%	(0.19)%	(0.03)%

Federal funds purchased and securities sold under repurchase agreements were $12.6 billion at June 30, 2013 compared with $8.6 billion at March 31, 2013 and $9.2 billion at June 30, 2012. The increase compared with both prior periods resulted from attractive overnight borrowing opportunities. The maximum daily balance in the second quarter of 2013 was $13.5 billion compared with $22.1 billion in the first quarter of 2013 and $21.8 billion in the second quarter of 2012. The weighted average rates in the first and second quarters of 2013 and at June 30, 2013, March 31, 2013 and June 30, 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)	June 30, 2013		March 31, 2013		June 30, 2012	
Maximum daily balance during the quarter	$16,458		$16,027		$15,812	
Average daily balance (a)	$15,055		$15,026		$13,255	
Weighted-average rate during the quarter	0.08	%	0.09	%	0.10	%
Ending balance	$15,267		$14,986		$13,305	
Weighted-average rate at period end	0.09	%	0.10	%	0.10	%

(a) The weighted average rate is calculated based on, and is applied to, the average interest-bearing payables to customers and broker-dealers, which were $9,073 million in the second quarter of 2013, $9,019 million in the first quarter of 2013 and $7,895 million in the second quarter of 2012.

Payables to customers and broker-dealers represent funds awaiting re-investment and short sale proceeds payable on demand. Payables to customers and broker-dealers were $15.3 billion at June 30, 2013, $15.0 billion at March 31, 2013 and $13.3 billion at June 30, 2012. Payables to customers and broker-dealers are driven by customer trading activity levels and market volatility.

Information related to commercial paper is presented below.

Commercial paper	Quarter ended					
(dollar amounts in millions)	June 30, 2013		March 31, 2013		June 30, 2012	
Maximum daily balance during the quarter	$924		$1,428		$2,547	
Average daily balance	$58		$245		$1,436	
Weighted-average rate during the quarter	0.04	%	0.09	%	0.29	%
Ending balance	$111		$78		$1,564	
Weighted-average rate at period end	0.03	%	0.03	%	0.14	%

Commercial paper outstanding was $111 million at June 30, 2013 compared with $78 million at March 31, 2013, and $1.6 billion at June 30, 2012. Average commercial paper outstanding was $58 million in the second quarter of 2013, $245 million in the first quarter of 2013 and $1.4 billion in the second quarter of 2012. The maximum daily balance in the second quarter of 2013 was $924 million compared with $1.4 billion in the first quarter of 2013 and $2.5 billion in the second quarter of 2012. Fluctuations between periods were a result of 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)	June 30, 2013		March 31, 2013		June 30, 2012	
Maximum daily balance during the quarter	$3,720		$2,514		$2,795	
Average daily balance	$1,385		$1,152		$1,114	
Weighted-average rate during the quarter	0.20	%	0.90	%	1.88	%
Ending balance	$1,060		$789		$1,374	
Weighted-average rate at period end	0.34	%	1.37	%	2.75	%

Other borrowed funds primarily include overdrafts of sub-custodian account balances in our Investment Services businesses and borrowings under lines of credit by our Pershing subsidiaries. Overdrafts typically relate to timing differences for settlements. Other borrowed funds were $1.1 billion at June 30, 2013 compared with $789 million at March 31, 2013 and $1.4 billion at June 30, 2012. Other borrowed funds averaged $1.4 billion in the second quarter of 2013, $1.2 billion in the first quarter of 2013 and $1.1 billion in the second quarter of 2012. The maximum daily balance in the second quarter of 2013 was $3.7 billion compared with $2.5 billion in the first quarter of 2013 and $2.8 billion in the second quarter of 2012. Changes compared with prior periods primarily reflect higher overdrafts of sub-custodian account balances in our Investment Services businesses.

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, deposit run-off, or contingent liquidity events.

For additional information on our liquidity policy, see “Risk Management - Liquidity risk” in our 2012 Annual Report.

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 in order to have ample liquidity for expected and unexpected events. Metrics include cashflow mismatches, asset maturities, access to debt and money markets, debt spreads, peer ratios, liquid assets, 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 the Final Rules regarding 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-earning assets, purchased funds as a percentage of total interest-earning assets, liquid assets as a percentage of total interest-earning assets, liquid assets as a percentage of purchased funds, and discount window collateral and central bank deposits as a percentage of total deposits. All of these ratios exceeded our minimum guidelines at June 30, 2013.

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.

We define available funds 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 lower level of available funds at June 30, 2013 compared with Dec. 31, 2012 resulted from the redeployment of funds on our balance sheet from interest-bearing deposits with the Federal Reserve and other central banks as we increased the level of our investment securities and our loan portfolio, as well as a slight decrease in client deposits.

Available and liquid funds (in millions)	June 30, 2013	Dec. 31, 2012	Average 2Q13	1Q13	2Q12	YTD13	YTD12
Available funds:							
Liquid funds:							
Interest-bearing deposits with banks	$42,145	$43,910	$42,772	$40,967	$38,474	$41,874	$36,784
Federal funds sold and securities purchased under resale agreements	9,978	6,593	7,878	7,478	5,493	7,679	5,333
Total liquid funds	52,123	50,503	50,650	48,445	43,967	49,553	42,117
Cash and due from banks	6,940	4,727	5,060	4,534	4,412	4,798	4,341
Interest-bearing deposits with the Federal Reserve and other central banks	77,150	90,110	55,911	63,240	57,904	59,555	60,715
Total available funds	$136,213	$145,340	$111,621	$116,219	$106,283	$113,906	$107,173
Total available funds as a percentage of total assets	38 %	40 %	33 %	35 %	35 %	34 %	35 %

On an average basis for the first six months of 2013 and the first six months of 2012, non-core sources of funds such as money market rate accounts, federal funds purchased, trading liabilities and other borrowings were $19.1 billion and $20.0 billion, respectively. The decrease primarily reflects lower levels of money market rate accounts. Average foreign deposits, primarily from our European-based Investment Services business, were $99.7 billion for the first six months of 2013 compared with $87.4 billion for the first six months of 2012. The increase primarily reflects growth in client deposits. Domestic savings and time deposits averaged $41.3 billion for the first six months of 2013 compared with $34.1 billion for the first six months of 2012. The increase primarily reflects higher time deposits. Deposit volumes could be impacted by proposed money market fund reform.

Average payables to customers and broker-dealers were $9.0 billion for the first six months of 2013 and $7.7 billion for the first six months of 2012. Payables to customers and broker-dealers are driven by customer trading activity and market volatility. Long-term debt averaged $18.9 billion for the first six months of 2013 and $20.3 billion for the first six months of 2012. The decrease in average long-term debt was driven by planned capital actions and debt maturities. Average noninterest-bearing deposits increased to $70.5 billion for the first six months of 2013 from $64.7 billion for the first six months of 2012 reflecting growth in client deposits. A significant reduction in our Investment Services business 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 debt and equity markets.

Subsequent to June 30, 2013, our bank subsidiaries could declare dividends to the Parent of approximately $2.2 billion, without the need for a regulatory waiver. In addition, at June 30, 2013, non-bank subsidiaries of the Parent had liquid assets of approximately $1.5 billion.

In April 2013, BNY Mellon announced a 15% increase in the quarterly common stock dividend, from $0.13 to $0.15 per share. As a result, in the second quarter of 2013, BNY Mellon paid a quarterly cash dividend of $0.15 per common share. Our common stock dividend payout ratio was 58% for the first six months of 2013, or 23% after adjusting for the charge related to the disallowance of certain foreign tax credits. The Federal Reserve's current guidance provides that, for large bank holding companies like us, dividend payout ratios exceeding 30% of after-tax net income will receive particularly close scrutiny.

Restrictions on our ability to obtain funds from our subsidiaries are discussed in more detail in "Supervision and Regulation - Capital Planning - Payment of Dividends, Stock Repurchases and Other Capital Distributions" and in Note 20 of the Notes to Consolidated Financial Statements, both contained in our 2012 Annual Report.

The Parent's average commercial paper borrowings were $58 million in the second quarter of 2013 compared with $1.4 billion in the second quarter of 2012. The Parent had cash of $4.6 billion at June 30, 2013, compared with $4.0 billion at Dec. 31, 2012. 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 outstanding issued by the Parent was $111 million at June 30, 2013 and $338 million at Dec. 31, 2012. Net of commercial paper outstanding, the Parent's cash position at June 30, 2013, increased by $876 million compared with Dec. 31, 2012, primarily reflecting the issuance of senior debt and preferred stock.

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

In the second quarter of 2013, we repurchased 11.9 million common shares in the open market, at an average price of $27.79 per share, for a total of $330 million.

The Parent's liquidity policy is to have sufficient cash on hand to meet its obligations over the next 18 to 24 months without the need to receive dividends from its bank subsidiaries or issue debt. As of June 30, 2013, the Parent was in compliance with its liquidity policy.

In addition to our other funding sources, we also have the ability to access the capital markets. In June 2013, we filed shelf registration statements on Form S-3 with the 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 2016, at which time we plan to file new shelf registration statements.

Our ability to access the capital markets on favorable terms, or at all, is partially dependent on our credit ratings, which, as of July 2, 2013, were as follows:

Credit ratings					
	Moody's	S&P	Fitch		DBRS
Parent:					
Long-term senior debt	Aa3	A+	AA-		AA (low)
Subordinated debt	A1	A	A+		A (high)
Preferred stock	Baa1	BBB	BBB		A (low)
Trust-preferred securities	A2	BBB	BBB+		A (high)
Short-term debt	P1	A-1	F1+		R-1 (middle)
Outlook - Parent:	(a)	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-	(b)	AA
Long-term deposits	Aa1	AA-	AA		AA
Short-term deposits	P1	A-1+	F1+		R-1 (high)
Outlook - Banks:	(a)	Stable	Stable		Stable

(a) Long-term ratings under review for downgrade.

(b) Represents senior debt issuer default rating.

As a result of Moody's Investors Service ("Moody's") and S&P's government support assumptions on certain U.S. financial institutions, the Parent's ratings by Moody's and S&P 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. On June 11, 2013, S&P indicated that it is reconsidering its inclusion of government support in its ratings on the eight U.S. bank holding companies that it views as having high systemic importance, including The Bank of New York Mellon Corporation. On June 11, 2013, S&P also revised its outlook on the operating subsidiaries of The Bank of New York Mellon Corporation to stable from negative reflecting the outlook revision on the long-term sovereign credit rating of the United States to stable from negative.

On July 2, 2013, Moody's placed the long-term ratings of three large U.S. trust and custody banks on review for downgrade, including The Bank of New York Mellon Corporation. The short-term debt and deposit ratings for all three banks, including The Bank of New York Mellon Corporation were affirmed at both the bank and holding company levels. Moody's indicated that the review will focus on the long-term profitability challenges facing these very highly-rated institutions, which are driven by aggressive pricing of all three banks' core custody products and services. According to Moody's, the review will also examine the banks' ability to generate more revenue from custody-related services and cut costs, and consider the level of the banks' dependence on ancillary revenues that have come under pressure. For further discussion on the impact of a credit rating downgrade, see Note 17 of the Notes to Consolidated Financial Statements.

Long-term debt totaled $18.5 billion at both June 30, 2013 and Dec. 31, 2012. In the first six months of 2013, the Parent issued $1.5 billion of senior debt, partially offset by the maturity of $750 million of senior debt and the decline in the fair value of the hedged long-term debt. The fair value of the derivatives hedging long-term debt is recorded in other assets. Additionally, the Parent called $65 million of subordinated debt, and has the option to call $42 million of subordinated debt in the remainder of 2013, which it may call and refinance if market conditions are favorable.

On Aug. 1, 2013, we issued $600 million of senior medium-term notes maturing in 2018 at an annual interest rate of 2.1% and $500 million of senior medium-term notes maturing in 2018 at an annual interest rate of 3-month LIBOR plus 56 basis points.

In the second quarter of 2013, we issued 500,000 depositary shares (the "Series D depositary shares"), each representing a 1/100th ownership interest in a share of Series D Noncumulative Perpetual Preferred Stock, with a liquidation preference of $100,000 per share (the "Series D preferred stock"), of The Bank of New York Mellon Corporation. BNY Mellon will pay a dividend on the Series D preferred stock if declared by our board of directors, at an annual rate of 4.5% on each June 20 and December 20, to but excluding June 20, 2023; and a floating rate equal to three-month LIBOR plus 2.46% on each March 20, June 20, September 20 and December 20, from and including June 20, 2023. The proceeds of the offering totaled $494 million, net of issuance costs, a portion of which was used to redeem $300 million of 7.78% Trust Preferred Securities of BNY Institutional Capital Trust A.

At June 30, 2013, we had $303 million of trust preferred securities outstanding, which currently qualify as Tier 1 capital. Any decision to take action with respect to these 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 Final Rules.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity, which included our noncumulative perpetual preferred stock plus trust preferred securities. Our double leverage ratio was 110.1% at June 30, 2013 and 109.9% at Dec. 31, 2012. 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 of $750 million extended by 16 financial institutions matures in March 2014. There were no borrowings against this line in the second quarter of 2013. Pershing LLC has nine separate uncommitted lines of credit amounting to $1.6 billion in aggregate. Average daily borrowing under these lines was $22 million, in aggregate, in the second quarter of 2013. See "Liquidity and dividends" in our 2012 Annual Report for a description of the covenants required to be maintained by the Parent for the committed lines of credit maintained by Pershing LLC. We are currently in compliance with these covenants.

Pershing Limited, an indirect UK-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 $84 million, in aggregate, in the second quarter of 2013.

Statement of cash flows

Cash used for operating activities was $959 million for the six months ended June 30, 2013 compared with cash provided by operating activities of $374 million for the six months ended June 30, 2012. In the first six months of 2013, cash flows used for operations were principally the result of changes in trading activity and accruals and other balances, partially offset by earnings. In the first six months of 2012, earnings, partially offset by changes in accruals and other balances, were a significant source of funds.

In the six months ended June 30, 2013, cash used for investing activities was $632 million compared with $5.8 billion in the six months ended June 30, 2012.

In the first six months of 2013, purchases of securities and changes in loans and federal funds sold and securities purchased under resale agreements were a significant use of funds, partially offset by sales, paydowns and maturities of securities and a decrease in deposits with the Federal Reserve and other central banks. In the first six months of 2012, purchases of securities, changes in federal funds sold and securities purchased under resale agreements and changes in interest-bearing deposits with banks were a significant use of funds, partially offset by decreases in deposits with the Federal Reserve and other central banks and sales, paydowns, and maturities of securities.

In the six months ended June 30, 2013, cash provided by financing activities was $3.9 billion compared with $5.8 billion for the six months ended June 30, 2012. In the first six months of 2013, an increase in federal funds purchased and securities sold under repurchase agreements and the proceeds from the issuance of long-term debt were significant sources of funds partially offset by repayment of long-term debt, a decrease in payables to customers and treasury stock repurchases. In the first six months of 2012, increases in federal funds purchased and securities sold under repurchase agreements, deposits, commercial paper and the issuance of long-term debt were significant sources of funds, partially offset by repayment of long-term debt, a decrease in other borrowed funds and treasury stock repurchases.

Capital

Capital data (dollar amounts in millions except per share amounts; common shares in thousands)	June 30, 2013		March 31, 2013		Dec. 31, 2012		June 30, 2012	
Average common equity to average assets	10.2	%	10.5	%	10.4	%	11.2	%
At period end:								
BNY Mellon shareholders' equity to total assets ratio (a)	10.0	%	10.0	%	10.1	%	10.5	%
BNY Mellon common shareholders' equity to total assets ratio (a)	9.5	%	9.7	%	9.9	%	10.3	%
Tangible BNY Mellon common shareholders' equity to tangible assets of operations ratio – Non-GAAP (a)	5.8	%	5.9	%	6.4	%	6.1	%
Total BNY Mellon shareholders' equity – GAAP	$35,882		$35,690		$36,431		$34,533	
Total BNY Mellon common shareholders' equity – GAAP	$34,320		$34,622		$35,363		$34,033	
Tangible BNY Mellon shareholders' equity – Non-GAAP (a)	$14,282		$14,469		$14,919		$13,544	
Book value per common share – GAAP (a)	$29.83		$29.83		$30.39		$28.81	
Tangible book value per common share – Non-GAAP (a)	$12.41		$12.47		$12.82		$11.47	
Closing common stock price per share	$28.05		$27.99		$25.70		$21.95	
Market capitalization	32,271		$32,487		$29,902		$25,929	
Common shares outstanding	1,150,477		1,160,647		1,163,490		1,181,298	
Cash dividends per common share	$0.15		$0.13		$0.13		$0.13	
Common dividend payout ratio	21	%	N/M		25	%	33	%
Common dividend yield (annualized)	2.1	%	1.9	%	2.0	%	2.4	%

(a) See "Supplemental information - Explanation of Non-GAAP financial measures" beginning on page 52 for a reconciliation of GAAP to non-GAAP.

Total The Bank of New York Mellon Corporation shareholders' equity at June 30, 2013 decreased to $35.9 billion from $36.4 billion at Dec. 31, 2012. The decrease primarily reflects a decline in the value of our investment securities portfolio and share repurchases, partially offset by the issuance of $500 million of noncumulative perpetual preferred stock and earnings retention.

The unrealized net of tax gain on our available-for-sale investment securities portfolio recorded in

accumulated other comprehensive income was $488 million at June 30, 2013 compared with $1.3 billion at Dec. 31, 2012. The decrease in the valuation of the investment securities portfolio was driven by an increase in long-term interest rates and $80 million of net realized securities gains in the first six months of 2013.

In the first six months of 2013, we repurchased 21.1 million common shares for a total of $583 million, including open market purchases of 11.9 million common shares for a total of $330 million in the second quarter of 2013.

In the first half of 2013, we generated $300 million of capital through the exercise of stock options and awards and employee benefit plan contributions.

From July 1, 2013 through Aug. 7, 2013, we repurchased 2.35 million common shares in the open market, at an average price of $31.75 per common share for a total of $75 million.

On July 17, 2013, the board of directors declared a quarterly common stock dividend of $0.15 per share. This cash dividend was paid on Aug. 6, 2013, to shareholders of record as of the close of business on July 29, 2013.

Capital adequacy

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

As of June 30, 2013 and Dec. 31, 2012, BNY Mellon and our bank subsidiaries were considered “well capitalized” on the basis of the Basel I Total and Tier 1 capital to risk-weighted assets ratios and the leverage ratio (Basel I Tier 1 capital to quarterly average assets as defined for regulatory purposes).

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

Consolidated and largest bank subsidiary capital ratios

	Well capitalized	Adequately capitalized	June 30, 2013	March 31, 2013	Dec. 31, 2012	June 30, 2012
Consolidated capital ratios:						
Estimated Basel III Tier 1 common equity ratio – Non-GAAP (a)(b)	N/A	N/A	9.3 %	9.4 %	9.8 %	8.7 %
Determined under Basel I-based guidelines (c):						
Tier 1 common equity to risk-weighted assets ratio – Non-GAAP (b)	N/A	N/A	13.2 %	12.2 %	13.5 %	13.2 %
Tier 1 capital	6 %	N/A	14.8 %	13.6 %	15.0 %	14.7 %
Total capital	10 %	N/A	15.8 %	14.7 %	16.3 %	16.4 %
Leverage – guideline	5 %	N/A	5.3 %	5.2 %	5.3 %	5.5 %
The Bank of New York Mellon capital ratios (c):						
Tier 1 capital	6 %	4 %	13.4 %	13.0 %	14.0 %	13.7 %
Total capital	10 %	8 %	13.9 %	13.6 %	14.6 %	14.5 %
Leverage	5 %	3% - 4% (d)	5.3 %	5.2 %	5.4 %	5.7 %

(a) At June 30, 2013, the estimated Basel III Tier 1 common equity ratio is based on our preliminary interpretation of and expectations regarding the final rules released by the Federal Reserve on July 2, 2013 and is presented under the Standardized Approach. This ratio was 9.8% under the Advanced Approach. For periods prior to June 30, 2013, these ratios were estimated using our interpretations of the Federal Reserve's Notices of Proposed Rulemaking ("NPRs") dated June 7, 2012, except as otherwise noted. Both the final rules and the NPRs require the Tier 1 common equity ratio to be the lower of the Standardized Approach or Advanced Approach. At March 31, 2013, this ratio was 9.4% under the Standardized Approach compared with 9.7% under the Advanced Approach. For all periods prepared under the NPRs prior to March 31, 2013, this ratio was higher under the Standardized Approach, and therefore was presented under the Advanced Approach. For all periods prior to June 30, 2013, Basel III risk-weightings for certain repo-style transactions were calculated under the Standardized Approach using the simple value-at-risk ("VaR") method. At June 30, 2013, Basel III risk-weightings for these transactions were calculated under the Standardized Approach using the collateral haircut approach.

(b) See "Supplemental Information - Explanation of Non-GAAP financial measures" beginning on page 52 for a calculation of this ratio.

(c) When in this Form 10-Q we refer to BNY Mellon's or our bank subsidiary's "Basel I" capital measures (e.g., Basel I Total capital or Basel I Tier 1 capital), we mean Total or Tier 1 capital, as applicable, as calculated under the Federal Reserve's risk-based capital guidelines that are based on the 1988 Basel Accord, which is often referred to as "Basel I". Includes full capital credit for certain capital instruments outstanding at June 30, 2013. A phase-out of non-qualifying instruments will begin on Jan. 1, 2014.

(d) The minimum leverage ratio for state member banks is 3% or 4%, depending on factors specified in regulations.

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

Quarterly impact to the estimated Basel III Tier 1 common equity ratio - Non-GAAP

	Standardized Approach	Advanced Approach
Estimated Basel III Tier 1 common equity ratio - Non-GAAP at March 31, 2013 (a)	9.4 %	9.7 %
Impacted by:		
Capital generation	40 bps	40 bps
Change in accumulated other comprehensive income	(50) bps	(50) bps
Change in risk-weighted assets	25 bps	10 bps
Impact of final rules	(25) bps	10 bps
Estimated Basel III Tier 1 common equity ratio - Non-GAAP at June 30, 2013 (a)	9.3 %	9.8 %

(a) See “Supplemental information - Explanation of Non-GAAP financial measures” beginning on page 52 for a calculation of this ratio.

bps - basis points.

Our estimated Basel III Tier 1 common equity ratio (non-GAAP), which was based on our preliminary interpretation of and expectations regarding the final rules, was 9.3% at June 30, 2013, compared with 9.4% at March 31, 2013 calculated using our interpretation of the NPRs, except as otherwise noted. The decrease primarily resulted from the decrease in the value of our investment securities portfolio, partially offset by capital generation. For additional information on the Basel III final rules, see “Recent accounting and regulatory developments - Regulatory developments”.

At June 30, 2013, the amounts of capital by which BNY Mellon and our largest bank subsidiary, The Bank of New York Mellon, exceed the Basel I “well capitalized” guidelines are as follows.

Capital above guidelines at June 30, 2013 (in millions)	Consolidated	The Bank of New York Mellon
Tier 1 capital	$10,080	$7,290
Total capital	6,693	3,855
Leverage	1,074	647

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 2012 Annual Report in “Supervision and Regulation-Regulated Entities of BNY Mellon and Ancillary Regulatory Requirements” and “Risk Factors-Operational and Business Risk-Failure to satisfy regulatory standards, including “well capitalized” and “well managed” status or capital adequacy guidelines more generally, could result in limitations on our activities and adversely affect our business and financial condition.”

Capital ratios vary 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 customer 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 or stress, our balance sheet size may increase considerably as client deposit levels increase.

In the second quarter of 2013, net Basel I Tier 1 common equity increased $544 million, primarily driven by earnings retention, partially offset by share repurchases.

Our Basel I Tier 1 capital ratio was 14.8% at June 30, 2013 compared with 15.0% at Dec. 31, 2012. The decrease in the Basel I Tier 1 capital ratio primarily reflects higher risk-weighted assets driven by the required implementation of the Basel II.5 - final market risk rule in the first quarter of 2013 and the redemption of trust preferred securities, partially offset by the issuance of noncumulative perpetual preferred stock.

Our Basel I Tier 1 leverage ratio was 5.3% at both June 30, 2013 and Dec. 31, 2012. The leverage ratio of The Bank of New York Mellon was 5.3% at June 30, 2013 compared with 5.4% at Dec. 31, 2012. The decrease in the leverage ratio of The Bank of New York Mellon primarily resulted from the net loss recorded in the first quarter of 2013.

The Tier 1 capital and total capital ratios for The Bank of New York Mellon decreased at June 30, 2013 compared with Dec. 31, 2012. The decreases in these ratios primarily reflect the impact of the net loss recorded in the first quarter of 2013 and higher risk-weighted assets driven by the required implementation of the Basel II.5 - final market risk rule in the first quarter of 2013.

The following table shows the impact of a $1 billion increase or decrease in risk-weighted assets/quarterly average assets or a $100 million increase or decrease in common equity on the consolidated capital ratios at June 30, 2013.

Potential impact to capital ratios as of June 30, 2013

(basis points)	Increase or decrease of $100 million in common equity		$1 billion in risk-weighted assets/quarterly average assets (a)	
Basel I:				
Tier 1 capital	9	bps	13	bps
Total capital	9		14	
Leverage	3		2	
Basel III:				
Estimated Tier 1 common equity ratio	7	bps	6	bps

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

Our tangible BNY Mellon common shareholders' equity to tangible assets of operations ratio was 5.8% at June 30, 2013 compared with 6.4% at Dec. 31, 2012. The decrease in the ratio primarily reflects a decrease in the unrealized gain on our available-for-sale investment securities portfolio, and a change in asset mix.

In the second quarter of 2013, we issued 500,000 Series D depositary shares each representing a 1/100th ownership interest in a share of the Series D preferred stock of The Bank of New York Mellon Corporation. BNY Mellon will pay a dividend on the Series D preferred stock if declared by our board of directors, at an annual rate of 4.5% on each June 20 and December 20, to but excluding June 20, 2023; and a floating rate equal to three-month LIBOR plus 2.46% on each March 20, June 20, September 20 and December 20, from and including June 20, 2023. The proceeds of the offering totaled $494 million, net of issuance costs, a portion of which was used to redeem $300 million of 7.78% Trust Preferred Securities of BNY Institutional Capital Trust A (liquidation amount $1,000 per security).

At June 30, 2013, we had $303 million of trust preferred securities outstanding which currently qualify as Tier 1 capital. Any decision to take action with respect to these 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 final Basel III rules.

The following tables present the components of our Basel I Tier 1 and Total risk-based capital, the Basel I risk-weighted assets as well as average assets used for leverage capital purposes at June 30, 2013, March 31, 2013, Dec. 31, 2012 and June 30, 2012.

Components of Basel I Tier 1 and total risk-based capital (a)	June 30,		March 31,		Dec. 31,		June 30,	
(in millions)	2013		2013		2012		2012	
Tier 1 capital:								
Common shareholders' equity	$34,320		$34,622		$35,363		$34,033	
Preferred stock	1,562		1,068		1,068		500	
Trust preferred securities	303		603		623		1,164	
Adjustments for:								
Goodwill and other intangibles (b)	(20,038	)	(20,153	)	(20,445	)	(20,489	)
Pensions/cash flow hedges	1,387		1,410		1,454		1,372	
Securities valuation allowance	(560	)	(1,314	)	(1,350	)	(825	)
Merchant banking investments	(23	)	(17	)	(19	)	(33	)

Total Tier 1 capital	16,951	16,219	16,694	15,722
Tier 2 capital:				
Qualifying unrealized gains on equity securities	3	4	2	2
Qualifying subordinated debt	853	922	1,058	1,317
Qualifying allowance for credit losses	337	358	386	467
Total Tier 2 capital	1,193	1,284	1,446	1,786
Total risk-based capital	$18,144	$17,503	$18,140	$17,508
Total risk-weighted assets	$114,511	$119,382	$111,180	$106,764
Average assets for leverage capital purposes	$317,542	$313,482	$315,273	$284,776

(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 $1,269 million at June 30, 2013, $1,293 million at March 31, 2013, $1,310 million at Dec. 31, 2012 and $1,400 million at June 30, 2012 and deferred tax liabilities associated with tax deductible goodwill of $1,200 million at June 30, 2013, $1,170 million at March 31, 2013, $1,130 million at Dec. 31, 2012 and $982 million at June 30, 2012.

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. The calculation of our VaR used by management and presented below, assumes a one-day holding period, utilizes a 99% confidence level, and incorporates the non-linear characteristics of options. See Note 17 of the Notes to Consolidated Financial Statements for additional information on the VaR methodology.

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

VaR (a)	2nd Quarter 2013			June 30,
(in millions)	Average	Minimum	Maximum	2013
Interest rate	$11.4	$8.7	$14.2	$9.9
Foreign exchange	1.1	0.5	2.3	1.0
Equity	3.1	1.4	4.4	3.3
Diversification	(3.3)	N/M	N/M	(2.9)
Overall portfolio	$12.3	$10.0	$14.8	$11.3

VaR (a)	1st Quarter 2013			March 31,
(in millions)	Average	Minimum	Maximum	2013
Interest rate	$11.3	$8.6	$14.8	$12.4
Foreign exchange	1.0	0.5	2.0	0.9
Equity	1.9	1.1	3.9	3.1
Diversification	(2.6)	N/M	N/M	(3.4)
Overall portfolio	$11.6	$8.8	$14.8	$13.0

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

VaR (a)	Year-to-date 2013		
(in millions)	Average	Minimum	Maximum
Interest rate	$11.3	$8.6	$14.8
Foreign exchange	1.1	0.5	2.3
Equity	2.5	1.1	4.4
Diversification	(3.0)	N/M	N/M
Overall portfolio	$11.9	$8.8	$14.8

VaR (a)	Year-to-date 2012		
(in millions)	Average	Minimum	Maximum
Interest rate	$9.3	$5.0	$13.2
Foreign exchange	2.5	0.5	4.8

Equity	2.2	1.3	3.4
Diversification	(4.0)	N/M	N/M
Overall portfolio	$ 10.0	$ 5.0	$ 14.8

(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.

The interest rate component of VaR represents instruments whose values predominantly vary with the level or volatility of interest rates. These instruments include, but are not limited to: debt securities, mortgage-backed securities, swaps, swaptions, forward rate agreements, exchange traded futures and options, and other interest rate derivative products.

The foreign exchange component of VaR represents instruments whose values predominantly vary with the level or volatility of currency exchange rates or interest rates. These instruments include, but are not limited to: currency balances, spot and forward transactions, currency options, and exchange traded futures and options, and other currency derivative products.

The equity component of VaR is comprised of instruments that represent an ownership interest in the form of domestic and foreign common stock or other equity-linked instruments. These instruments include, but are not limited to: common stock, exchange traded funds, American Depositary Receipts, listed equity options (puts and calls), OTC equity options, equity total return swaps, equity index futures and other equity derivative products.

The diversification component of VaR is the risk reduction benefit that occurs when combining portfolios and offsetting positions, and from the correlated behavior of risk factor movements.

During the second quarter of 2013, interest rate risk generated 73% of average VaR, equity risk generated 20% of average VaR and foreign exchange risk accounted for 7% of average VaR. During the second quarter of 2013, our daily trading loss did not exceed our calculated VaR amount of the overall portfolio on any given day.

The following table of total daily trading revenue or loss illustrates the number of trading days in which our trading revenue or loss fell within particular ranges during the past five quarters. The increase in the number of days greater than $5 million is attributable to higher foreign exchange revenue and the volatility of the derivative revenue related to the implementation of the overnight index swap ("OIS") curve.

Distribution of trading revenues (losses) (a)

(dollar amounts in millions)	Quarter ended June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013
Revenue range:	Number of days				
Less than $(2.5)	—	—	1	—	—
$(2.5) - $0	4	2	—	4	1
$0 - $2.5	25	35	41	24	27
$2.5 - $5.0	29	23	20	32	24
More than $5.0	6	3	—	1	12

(a) For quarters prior to June 30, 2013, the distribution of trading revenues (losses) does not reflect the impact of the CVA and corresponding hedge and OIS discounting.

Foreign exchange and other trading

Foreign exchange and other trading revenue totaled $207 million in the second quarter of 2013, $180 million in the second quarter of 2012 and $161 million in the first quarter of 2013. In the second quarter of 2013, foreign exchange revenue totaled $179 million, an increase of 14% year-over-year and 20% (unannualized) sequentially. Both increases primarily reflect higher volatility and increased volumes. Foreign exchange revenue continues to be impacted by competitive market pressures. Other trading revenue totaled $28 million in the second quarter of 2013, compared with $23 million in the second quarter of 2012 and $12 million in the first quarter of 2013. Foreign exchange revenue and fixed income trading revenue is reported in the Investment Services business and the Other segment. Equity/other trading revenue is primarily reported in the Other segment.

Trading assets include debt and equity instruments and derivative assets, primarily interest rate and foreign exchange contracts, not designated as hedging instruments. Trading assets totaled $11 billion at June 30, 2013 compared with $9 billion at Dec. 31, 2012. The increase in trading assets primarily

resulted from higher levels of securities inventory, partially offset by an increase in long-term interest rates.

Trading liabilities include debt and equity instruments, and derivative liabilities, primarily interest rate and foreign exchange contracts, not designated as hedging instruments. Trading liabilities totaled $8 billion at June 30, 2013 compared with $8 billion at Dec. 31, 2012.

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

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

At June 30, 2013, our over-the-counter (“OTC”) derivative assets of $5.1 billion included a credit valuation adjustment (“CVA”) deduction of $47 million. Our OTC derivative liabilities of $5.9 billion included a debit valuation adjustment (“DVA”) of $9 million related to our own credit spread. Net of hedges, the CVA and DVA were unchanged in the second quarter of 2013. Foreign exchange and other trading revenue was not impacted by the CVA and DVA in the second quarter of 2013.

In the first quarter of 2013, net of hedges, the CVA decreased $31 million and the DVA decreased $13 million. The net impact of these adjustments increased foreign exchange and other trading revenue by $18 million in the first quarter of 2013.

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.

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. Significant changes in ratings classifications for our foreign exchange and other trading activity could result in increased risk for us. The year-over-year increase in the percentage of exposure to counterparties with a risk rating profile of A+ to A- reflects a general increase in foreign exchange activity within this ratings category as well as increases in existing exposure to certain large inter-bank counterparties.

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

	Quarter ended June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013
Rating:					
AAA to AA-	40 %	43 %	38 %	37 %	41 %
A+ to A-	31	27	35	40	38
BBB+ to BBB-	22	23	22	19	17
Non-investment grade (BB+ and lower)	7	7	5	4	4
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 (dollars in millions)	June 30, 2013	March 31, 2013
up 200 bps parallel rate shift vs. baseline (a)	$402	$351
up 100 bps parallel rate shift vs. baseline (a)	324	311
Long-term up 50 bps, short-term unchanged (b)	130	142
Long-term down 50 bps, short-term unchanged (b)	(123)	(114)

(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 current historically 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; and
- Money market mutual fund reform.

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 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, and securities lending indemnifications issued as part of our Investment Services business. 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 Tier 1 common equity and 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 and trust preferred securities from the numerator of the ratio. 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 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 its estimated Basel III Tier 1 common equity ratio based on its current interpretation, expectations and understanding of the final Basel III rules released by the Federal Reserve on July 2, 2013 and on the application of such rules to BNY Mellon's businesses as currently conducted. The estimated Basel III Tier 1 common equity ratio is necessarily subject to, among other things, BNY Mellon's further review and implementation of the final Basel III rules, anticipated compliance with all necessary enhancements to model calibration, and other refinements, further implementation guidance from regulators and any changes BNY Mellon may make to its businesses. Consequently, BNY Mellon's Basel III Tier 1 common equity ratio estimate may change

based on these factors. Management views the Basel III Tier 1 common equity ratio as a key measure in monitoring BNY Mellon's capital position and progress against future regulatory capital standards. Additionally, the presentation of the Basel III Tier 1 common equity ratio is intended to allow investors to compare BNY Mellon's Basel III Tier 1 common equity ratio with estimates presented by other companies.

BNY Mellon has presented revenue measures which exclude the effect of noncontrolling interests related to consolidated investment management funds and gains related to an equity investment; and expense measures which exclude charges related to the disallowance of certain foreign tax credits, M&I expenses, litigation charges, restructuring charges and amortization of intangible assets. Return on equity measures and operating margin measures, which exclude some or all of these items, are also presented. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons which relate to the ability of BNY Mellon to enhance revenues and limit expenses in circumstances where such matters are within BNY Mellon's control. The excluded items, in general, relate to certain ongoing charges as a result of prior transactions or where we have incurred charges. M&I expenses primarily relate to the acquisitions of Global Investment Servicing on July 1, 2010 and BHF Asset Servicing GmbH on Aug. 2, 2010. M&I expenses generally continue for approximately three years after the transaction and can vary on a year-to year basis depending on the stage of the integration. BNY Mellon believes that the exclusion of M&I expenses provides investors with a focus on BNY Mellon's business as it would appear on a consolidated going-forward basis, after such M&I expenses have ceased. Future periods will not reflect such M&I expenses, and thus may be more easily compared with our current results if M&I expenses are excluded. Litigation charges represent accruals for loss contingencies that are both probable and reasonably estimable, but exclude standard business-related legal fees. Restructuring charges relate to our operational excellence initiatives and migrating positions to global delivery centers. Excluding these charges permits investors to view expenses on a basis consistent with how management views the business.

The presentation of income from consolidated investment management funds, net of net income attributable to noncontrolling interest related to the consolidation of certain investment management funds permits investors 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 pre-tax operating margin ratio.

Reconciliation of income before income taxes – pre-tax operating margin (dollars in millions)	2Q13	1Q13	2Q12	YTD13	YTD12
Income before income taxes – GAAP	$1,206	$809	$589	$2,015	$1,474
Less: Net income attributable to noncontrolling interests of consolidated investment management funds	39	16	29	55	40
Add: Amortization of intangible assets	93	86	97	179	193
M&I, litigation and restructuring charges	13	39	378	52	487
Income before income taxes excluding net income attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets and M&I, litigation and restructuring charges – Non-GAAP	$1,273	$918	$1,035	$2,191	$2,114
Fee and other revenue – GAAP	$3,187	$2,844	$2,826	$6,031	$5,664
Income from consolidated investment management funds – GAAP	65	50	57	115	100
Net interest revenue – GAAP	757	719	734	1,476	1,499
Total revenue – GAAP	4,009	3,613	3,617	7,622	7,263
Less: Net income attributable to noncontrolling interests of consolidated investment management funds	39	16	29	55	40
Total revenue excluding net income attributable to noncontrolling interests of consolidated investment management funds – Non-GAAP	$3,970	$3,597	$3,588	$7,567	$7,223
Pre-tax operating margin (a)	30%	22%	16%	26%	20%
Pre-tax operating margin, excluding net income attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets and M&I, litigation and restructuring charges – Non-GAAP (a)	32%	26%	29%	29%	29%

(a) Income before taxes divided by total revenue.

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

Return on common equity and tangible common equity (dollars in millions)	2Q13	1Q13	2Q12	YTD13	YTD12
Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP	$833	$(266)	$466	$567	$1,085
Add: Amortization of intangible assets, net of tax	59	56	61	115	122
Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets – Non-GAAP	892	(210)	527	682	1,207
Add: M&I, litigation and restructuring charges	8	24	225	32	290
Charge related to the disallowance of certain foreign tax credits	—	854	—	854	—
Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets, M&I, litigation and restructuring charges and the charge related to the disallowance of certain foreign tax credits – Non-GAAP	$900	$668	$752	$1,568	$1,497
Average common shareholders' equity	$34,467	$34,898	$34,123	$34,681	$33,920
Less: Average goodwill	17,957	17,993	17,941	17,975	17,951
Average intangible assets	4,661	4,758	5,024	4,709	5,073
Add: Deferred tax liability – tax deductible goodwill	1,200	1,170	982	1,200	982
Deferred tax liability – non-tax deductible intangible assets	1,269	1,293	1,400	1,269	1,400
Average tangible common shareholders' equity – Non-GAAP	$14,318	$14,610	$13,540	$14,466	$13,278
Return on common equity – GAAP (a)	9.7%	N/M	5.5%	3.3%	6.4%
Return on common equity excluding amortization of intangible assets, M&I, litigation and restructuring charges and the charge related to the disallowance of certain foreign tax credits – Non-GAAP (a)	10.5%	7.8%	8.9%	9.1%	8.9%
Return on tangible common equity – Non-GAAP (a)	25.0%	N/M	15.7%	9.5%	18.3%
Return on tangible common equity excluding M&I, litigation and restructuring charges and the charge related to the disallowance of certain foreign tax credits – Non-GAAP (a)	25.2%	18.5%	22.4%	21.9%	22.7%

(a) Annualized.
N/M – Not meaningful.

The following table presents income from consolidated investment management funds, net of noncontrolling interests.

Income from consolidated investment management funds, net of noncontrolling interests (in millions)	2Q13	1Q13	2Q12	YTD13	YTD12
Income from consolidated investment management funds	$65	$50	$57	$115	$100
	39	16	29	55	40

Less: Net income attributable to noncontrolling interests of consolidated investment management funds					
Income from consolidated investment management funds, net of noncontrolling interests	$26	$34	$28	$60	$60

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 (in millions)	2Q13	1Q13	2Q12	YTD13	YTD12
Investment management fees	$20	$20	$20	$40	$42
Other (Investment income)	6	14	8	20	18
Income from consolidated investment management funds, net of noncontrolling interests	$26	$34	$28	$60	$60

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)	June 30, 2013	March 31, 2013	Dec. 31, 2012	June 30, 2012
BNY Mellon shareholders’ equity at period end – GAAP	$35,882	$35,690	$36,431	$34,533
Less: Preferred stock	1,562	1,068	1,068	500
BNY Mellon common shareholders’ equity at period end – GAAP	34,320	34,622	35,363	34,033
Less: Goodwill	17,919	17,920	18,075	17,909
Intangible assets	4,588	4,696	4,809	4,962
Add: Deferred tax liability – tax deductible goodwill	1,200	1,170	1,130	982
Deferred tax liability – non-tax deductible intangible assets	1,269	1,293	1,310	1,400
Tangible BNY Mellon shareholders’ equity at period end – Non-GAAP	$14,282	$14,469	$14,919	$13,544
Total assets at period end – GAAP	$360,505	$355,942	$358,990	$330,283
Less: Assets of consolidated investment management funds	11,471	11,236	11,481	10,955
Subtotal assets of operations – Non-GAAP	349,034	344,706	347,509	319,328
Less: Goodwill	17,919	17,920	18,075	17,909
Intangible assets	4,588	4,696	4,809	4,962
Cash on deposit with the Federal Reserve and other central banks (a)	78,671	78,059	90,040	72,838
Tangible total assets of operations at period end – Non-GAAP	$247,856	$244,031	$234,585	$223,619
BNY Mellon shareholders’ equity to total assets – GAAP	10.0%	10.0%	10.1%	10.5%
BNY Mellon common shareholders’ equity to total assets – GAAP	9.5%	9.7%	9.9%	10.3%
Tangible BNY Mellon common shareholders’ equity to tangible assets of operations – Non-GAAP	5.8%	5.9%	6.4%	6.1%
Period end common shares outstanding (in thousands)	1,150,477	1,160,647	1,163,490	1,181,298
Book value per common share	$29.83	$29.83	$30.39	$28.81
Tangible book value per common share – Non-GAAP	$12.41	$12.47	$12.82	$11.47

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

The following table presents the calculation of the effective tax rate.

Effective tax rate (dollars in millions)	1Q13
Provision for income taxes	$1,046
Less: Charge related to the disallowance of certain foreign tax credits	854
Provision for income taxes – Non-GAAP	$192
Income before taxes	$809
Effective tax rate – GAAP	129.3%
Effective tax rate – Operating basis – Non-GAAP	23.7%

The following table presents the calculation of our Basel I Tier 1 common equity ratio.

Calculation of Basel I Tier 1 common equity to risk-weighted assets ratio (a)

(dollars in millions)	June 30, 2013	March 31, 2013	Dec. 31, 2012	June 30, 2012
Total Tier 1 capital – Basel I	$16,951	$16,219	$16,694	$15,722
Less: Trust preferred securities	303	603	623	1,164
Preferred stock	1,562	1,068	1,068	500
Total Tier 1 common equity	$15,086	$14,548	$15,003	$14,058
Total risk-weighted assets – Basel I	$114,511	$119,382	$111,180	$106,764
Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP	13.2 %	12.2 %	13.5 %	13.2 %

(a) Determined under Basel I regulatory guidelines.

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

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

(dollars in millions)	June 30, 2013	March 31, 2013	Dec. 31, 2012	June 30, 2012
Total Tier 1 capital - Basel I	$16,951	$16,219	$16,694	$15,722
Add: Deferred tax liability - tax deductible intangible assets	81	78	78	N/A
Less: Preferred stock	1,562	1,068	1,068	500
Trust preferred securities	303	603	623	1,164
Adjustments related to available-for-sale securities and pension liabilities included in accumulated other comprehensive income (b)	796	78	85	513
Adjustments related to equity method investments (b)	500	488	501	558
Net pension fund assets (b)	268	258	249	43
Deferred tax assets	26	52	47	46
Other	—	1	—	2
Total estimated Basel III Tier 1 common equity	$13,577	$13,749	$14,199	$12,896
Total risk-weighted assets - Basel I	$114,511	$119,382	$111,180	$106,764
Add: Adjustments (c)	31,330	26,898	33,104	41,493
Total estimated Basel III risk-weighted assets	$145,841	$146,280	$144,284	$148,257
Estimated Basel III Tier 1 common equity ratio - Non-GAAP	9.3 %	9.4 %	9.8 %	8.7 %

(a) At June 30, 2013, the estimated Basel III Tier 1 common equity ratio is based on our preliminary interpretation of and expectations regarding the final rules released by the Federal Reserve on July 2, 2013 and presented under the Standardized Approach. This ratio was 9.8% under the Advanced Approach. For periods prior to June 30, 2013, these ratios were estimated using our interpretations of the NPRs dated June 7, 2012, except as otherwise noted. Both the final rules and the NPRs require the Tier 1 common equity ratio to be the lower of the Standardized Approach or Advanced Approach. At March 31, 2013, this ratio was 9.4% under the Standardized Approach compared with 9.7% under the Advanced Approach. For all periods prepared under the NPRs prior to March 31, 2013, this ratio was higher under the Standardized Approach, and therefore was presented under the Advanced Approach. For all periods prior to June 30, 2013, Basel III risk-weightings for certain repo-style transactions were calculated under the Standardized Approach using the simple VaR method. At June 30, 2013, Basel III risk-weightings for these transactions were calculated under the Standardized Approach using the collateral haircut approach.

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

(c) Following are the primary differences between risk-weighted assets determined under Basel I and Basel III. Credit risk is determined under Basel I using predetermined risk-weights and asset classes and relies in part on the use of external credit ratings. Under Basel III both the Standardized and Advanced Approaches use a broader range of predetermined risk-weights and asset classes and certain alternatives to external credit ratings. Securitization exposure receives a higher risk-weighting under Basel III than Basel I, and Basel III includes additional adjustments for market risk, counterparty credit risk and equity exposures. Additionally, the Standardized Approach eliminates the use of the VaR approach for determining risk-weighted assets on certain repo-style transactions. Risk-weighted assets calculated under the Advanced Approach also include an adjustment for operational risk.

Recent accounting and regulatory developments

Proposed Accounting Standards

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 during the second half of 2013. The FASB and IASB tentatively decided that the effective date of the proposed standard would be annual reporting periods beginning on or after Jan. 1, 2017.

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 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. A final ASU is expected to be issued during the second half of 2013.

Proposed ASU - Leases

On May 16, 2013, the FASB and IASB issued a revised proposed ASU on leases. The proposed ASU introduces new accounting models for both lessees and lessors, primarily to address concerns related to off-balance-sheet financing arrangements available to lessees under current guidance. The proposal would require lessees to account for all leases on the balance sheet, except for certain short-term leases that have a maximum possible lease term of 12 months or less, including any options to renew. A lessee would recognize on its balance sheet (1) an asset for its right to use the underlying asset over the lease term and (2) a liability representing its obligation to make lease payments over the lease term. The income statement impact for lessees would depend on the nature of the underlying asset - that is, whether the underlying asset is property or an asset other than property - and the terms and conditions of the lease. The proposed ASU also introduces new accounting guidance for lessors. Lessors would account for leases under either the new receivable-and-residual approach or an approach similar to current operating-lease accounting. The appropriate approach to use would depend on the nature of the underlying asset - that is, whether the underlying asset is property or an asset other than property - and the terms and conditions of the lease. If finalized, the proposed ASU would converge most significant aspects of the FASB’s and IASB’s accounting for lease contracts. Comments on this proposed ASU are due by Sept. 13, 2013. A final standard may be issued in 2014 and would be effective no earlier than reporting periods beginning on Jan. 1, 2017.

Proposed ASU - Financial Instruments - Credit Losses

In December 2012, the FASB issued a proposed ASU, “Financial Instruments-Credit Losses.” This proposed ASU would result in a single model to account for credit losses on financial assets. The proposal would remove the probable threshold for recognizing credit losses and require an estimate of the contractual cash flows an entity does not expect to collect on financial assets not measured at fair value through the income statement. The proposal would also change current practice for recognizing other-than-temporary impairment and interest income on debt securities. In addition, the proposal would result in the recognition of an allowance for credit losses for nearly all types of debt instruments. The proposal would expand the credit quality disclosures to require information about changes in the factors that influence estimates of credit losses and the reasons for those changes. Comments on this proposed ASU were due in May 2013.

Proposed ASU - Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings

In January 2013, the FASB issued a proposed ASU, “Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings.” This proposed ASU would require certain repurchase agreements to be accounted for as secured borrowings. For repurchase agreements and similar transactions accounted for as secured borrowings, an entity would be required to disclose the carrying value of the borrowing disaggregated by the type of collateral pledged. Comments on this proposed ASU were due in March 2013.

Proposed ASU - Recognition and Measurement of Financial Assets and Financial Liabilities

In February 2013, the FASB issued a proposed ASU, “Recognition and Measurement of Financial Assets and Financial Liabilities.” This proposed ASU would affect entities that hold financial assets and liabilities and would change the methodology related to recognition, classification, measurement and presentation of financial instruments. The scope of the proposed ASU would exclude instruments classified in shareholders’ equity, share-based arrangements, pension plans, leases, guarantees and

derivative instruments accounted under ASC 815, “Derivatives and Hedging.” Financial assets would be classified and measured based on the instrument’s cash flow characteristics and an entity’s business model for managing the instrument. Financial liabilities would generally be measured initially at their transaction price. The proposal includes three principal classification and measurement categories: (1) fair value for which all changes in fair value are recognized in net income; (2) fair value with qualifying changes in fair value recognized in other comprehensive income; and (3) amortized cost. This proposed ASU requires financial assets and liabilities to be presented separately on the balance sheet by measurement category. In addition, the fair value of financial assets and liabilities accounted for under amortized cost would be presented parenthetically on the balance sheet. Comments on this proposed ASU were due in May 2013.

Proposed ASU - Reporting Discontinued Operations

In April 2013, the FASB issued a proposed ASU, “Reporting Discontinued Operations.” This proposed ASU would change the criteria and enhance the reporting for discontinued operations. The proposal would also enhance disclosure requirements and add new disclosures for individually material dispositions that do not qualify as discontinued operations. Under the proposal, a discontinued operation is a component of an entity, or group of components of an entity, that either has been disposed of, or is classified as held for sale and (1) is part of a single coordinated plan to dispose of a separate major line of business or separate major geographical area of operations, or (2) is a business that, on acquisition, meets the criteria for classification as held for sale. The proposal no longer precludes the presentation of a discontinued operation if there is significant continuing involvement with the component after the disposal or if there are ongoing operations or cash flows. Under the proposal, for disposals that are material but do not qualify as discontinued operations, disclosures of pre-tax income or losses of the disposed component and a reconciliation of the major classes of assets and liabilities held for sale to the amounts presented separately on the balance sheet would be required. Comments on this proposed ASU are due on Aug. 30, 2013.

Proposed ASU - Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)

In April 2013, the FASB issued a proposed ASU, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." This proposed ASU would permit reporting entities that invest in a qualified affordable housing project through a limited liability entity to elect to account for the investment using the effective yield method if certain conditions are met. For those investments in qualified affordable housing projects not accounted for using the effective yield method, the investment would be accounted for as an equity method investment or cost investment in accordance with Topic 970. The amendments in this proposed Update would be applied retrospectively. Early adoption would be permitted. The effective date will be determined after the Task Force considers feedback on the proposed Update. Comments were due in June 2013.

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.

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 developed 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 presented 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 not known when the SEC will make a final decision on the adoption of IFRS in the U.S.

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 filed in those countries. Such countries include Belgium, Brazil, the Netherlands, Australia, Hong Kong, Canada and South Korea.

Update to Internal Controls - Integrated Framework

On May 14, 2013, The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated version of its Internal Control - Integrated Framework. Originally issued in 1992, the framework helps organizations design, implement and evaluate the effectiveness of internal controls. Updates to the framework were intended to clarify internal control concepts and simplify their use and application. The 1992 framework will remain available during the transition period, which extends to Dec. 15, 2014, after which time COSO will consider it as superseded by the 2013 Framework. Along with the 2013 framework, COSO issued a document containing examples illustrating various approaches to assessing the effectiveness of internal controls.

Regulatory developments

For a summary of additional regulatory matters relevant to our operations, see "Supervision and regulation" in our 2012 Annual Report.

New Risk-Based and Leverage Regulatory Capital Rules

As a BHC, we are subject to consolidated regulatory capital rules administered by the Federal Reserve. Our bank subsidiaries are subject to similar capital requirements, administered by the Federal Reserve in the case of The Bank of New York Mellon and by the Office of the Comptroller of the Currency ("OCC") in the case of our national bank subsidiaries, BNY Mellon, N.A. and The Bank of New York Mellon Trust Company, National Association. These requirements are intended to ensure that banking organizations have adequate capital given the risk levels of their assets and off-balance sheet financial instruments.

In July 2013, the federal banking agencies finalized rules (the "Final Rules") revising the capital framework applicable to U.S. BHCs and banks. The Final Rules implement Basel III and certain provisions of the Dodd-Frank Act for U.S. BHCs and banks (including by redefining the components of capital and establishing higher minimum percentages for applicable capital ratios) and substantially revise the agencies' general risk-based capital rules in a manner designed to make them more risk sensitive. The Final Rules establish a graduated implementation

schedule that commences on Jan. 1, 2014 for Advanced Approaches banking organizations, including BNY Mellon and will be principally phased-in by 2019. On Jan. 1, 2014, the applicable transition periods for the revised minimum regulatory capital ratios, definitions of regulatory capital, and regulatory capital adjustments and deductions begin. Also on Jan. 1, 2014, BNY Mellon must begin using the Advanced Approaches rule for determining risk-weighted assets, assuming successful completion of our parallel run. BNY Mellon must: begin using the risk-weightings in the Final Rules' new Standardized Approach on Jan. 1, 2015; meet the minimum ratios for the capital conservation buffer and countercyclical capital buffer during the transition period which begins on Jan. 1, 2016; and begin compliance with the new Basel III-based supplementary leverage ratio on Jan. 1, 2018.

In general, the Final Rules largely adhere to the rules as initially proposed in June 2012 and as summarized in the Company's 2012 Annual Report. Consistent with the terms of the Basel III Framework, the Final Rules will, when fully phased-in, require banking institutions to satisfy three minimum risk-based capital ratios:

- A Tier 1 common equity ratio of at least 7%, 4.5% attributable to a minimum Tier 1 common equity ratio and 2.5% attributable to a "capital conservation buffer" (during periods of excessive growth the capital conservation buffer may be expanded up to an additional 2.5% through the imposition of a countercyclical capital buffer);
- A Tier 1 capital ratio of at least 8.5%, 6% attributable to a minimum Tier 1 capital ratio and 2.5% attributable to the capital conservation buffer; and
- A total capital ratio of at least 10.5%, 8% attributable to a minimum total capital ratio and 2.5% attributable to the capital conservation buffer.

In addition, in November 2012, BNY Mellon was provisionally assigned to a 1.5% Tier 1 common equity surcharge bucket applicable to global systemically important banks (“G-SIBs”) based on certain Basel Committee final rules, resulting in a total Tier 1 common equity ratio of 8.5%, a total Tier 1 capital ratio of 10% and a total capital ratio of 12%, if implemented.

Under the Final Rules all banking institutions will be subject to a minimum leverage ratio of 4.0% (calculated as the ratio of Tier 1 capital to quarterly average consolidated total assets as reflected on the institution's consolidated financial statements, net of amounts deducted from capital). In addition, Advanced Approaches banking organizations and their subsidiary insured depository institutions will be subject to a new Basel III-based supplementary leverage ratio of 3% to become effective Jan. 1, 2018 (calculated as the ratio of Tier 1 capital to the sum of quarterly average consolidated total assets as reflected on the institution's consolidated financial statements, net of amounts deducted from capital, plus certain off-balance sheet items, including the potential future credit exposure of derivative contracts and 10% of the notional amount of unconditionally cancellable commitments.)

The Final Rules do not establish new standards for determining if a BHC is "well-capitalized", which currently requires a Tier 1 capital ratio of 6% and a total capital ratio of 10%. However, the Final Rules establish revised "well-capitalized" thresholds for insured depository institutions under the federal banking agencies' prompt corrective action framework of:

- A Tier 1 common equity ratio of at least 6.5%;
- A Tier 1 capital ratio of at least 8%;
- A total capital ratio of at least 10%; and
- A Basel I-based Tier 1 leverage ratio of at least 5%.

At June 30, 2013, BNY Mellon's Basel I Tier 1 capital to risk-adjusted assets and Total capital to risk-adjusted assets ratios were 14.8% and 15.8%, respectively; and our estimated Basel III Tier 1 common equity ratio (Non-GAAP) was 9.3%, on a fully phased-in basis. For additional information on capital ratios, see "Capital".

The Final Rules differ, in limited respects, from the 2012 proposed rules. For BNY Mellon, the most notable changes or clarifications in the Final Rules relative to the 2012 proposed rule or prior standards pertain to the application of the phase-out requirements for trust preferred securities and exposure measurement methodologies for securities finance transactions.

Regarding the phase-out requirements contained in Section 171 of the Dodd-Frank Act - the so-called

"Collins Amendment" - the Final Rules clarify the computation date for trust preferred securities. The Final Rules concerning the applicable transition period state that non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 (and that are also outstanding on the effective date of the final rule) may continue to be included in Tier 1 or Tier 2 capital up to the following percentages: Calendar year 2014: 50%; Calendar year 2015: 25%; and Calendar year 2016 and later dates: 0%. Certain non-qualifying instruments no longer eligible for inclusion in Tier 1 capital may still be included in Tier 2 capital over a gradual phase-out schedule terminating in 2022. At June 30, 2013, BNY Mellon had approximately $303 million of outstanding trust preferred securities.

Concerning securities finance transactions, including transactions in which we serve as agent and provide securities replacement indemnification to a securities lender, consistent with the approach in the June 2012 NPRs, the Final Rules do not permit a banking organization to use a simple VaR approach to calculate exposure amounts for repo-style transactions or to use internal models to calculate the exposure amount for the counterparty credit exposure for repo-style transactions under the Standardized Approach. These methodologies are included in the Advanced Approaches.

Under the Standardized Approach, a banking organization may use a collateral haircut approach to recognize the credit risk mitigation benefits of financial collateral that secures a repo-style transaction, including an agented securities lending transaction, among other transactions. To apply the collateral haircut approach, a banking organization must determine the exposure amount and the relevant risk weight for the counterparty or guarantor.

Banking organizations may calculate market price volatility and foreign exchange volatility using their own internal estimates with prior written approval of their primary Federal supervisor.

The Final Rules do not address certain matters concerning financial institution capital, liquidity and related matters expected to be the subject of regulation in the near term. These items include U.S. implementation of capital surcharges for G-SIBs (for which BNY Mellon has been provisionally assigned a 1.5% surcharge, as indicated above), Basel III's liquidity standards, loss absorbency standards designed to facilitate a holding company "single point of entry" resolution under Title II of the Dodd-Frank Act, and capital charges designed to discourage overreliance on short-term wholesale funding practices.

Supplementary Leverage Ratio Proposals

As noted above, the U.S. banking agencies' recently released Final Rules retained their existing Basel I-based leverage ratio (although establishing 4% as the new minimum required leverage ratio and eliminating the existing permission for a banking organization with a composite 1 supervisory rating to comply with a 3% minimum). They also implement for Advanced Approaches banking organizations, including BNY Mellon, the new 3% Basel III-based supplementary leverage ratio, to become effective Jan. 1, 2018. The Basel Committee and the U.S. banking agencies are each independently considering potential changes to the supplementary leverage ratio that, individually or taken together, could make it substantially more restrictive.

In June 2013, the Basel Committee issued a consultative document proposing revisions to the supplementary leverage ratio's denominator. The proposed revisions would broaden the denominator's scope to expand the exposure calculations for derivatives and related collateral, written credit derivatives (from the perspective of the organization serving as the seller of credit protection), and securities financing transactions, including indemnified agented securities lending transactions. The Basel Committee's proposal, if ultimately adopted and applied in the United States without adjustment, is expected to result in an expanded denominator for BNY Mellon.

Separately on July 9, 2013, the U.S. banking agencies proposed revisions to the supplementary leverage ratio under a notice of proposed rulemaking that would only apply to the largest U.S. BHCs and banks. The proposed enhancements, if adopted, would apply to BNY Mellon and its banking subsidiaries. In contrast to the Basel Committee's June document, this proposal principally focuses on the supplementary leverage ratio's numerator. The U.S. proposal would increase the supplementary leverage requirement for affected BHCs and their depository institution subsidiaries. BHCs with a supplementary leverage ratio of less than 5.0% would face constraints on dividends, equity repurchases and compensation. The application of such limitations

would use the approach applied under the capital conservation buffer. In addition, this proposal would establish a supplementary leverage ratio "well-capitalized" threshold of 6% for affected insured depository institutions under the U.S. banking agencies' prompt corrective action framework. The proposal indicated that the agencies would also be considering the principles set forth in the Basel Committee's Consultative document.

On June 30, 2013, the Basel I leverage ratio for each of The Bank of New York Mellon Corporation and our primary banking subsidiary, The Bank of New York Mellon, was 5.3%.

Basel Committee Large Exposures Framework

In March 2013, the Basel Committee released a Consultative Document outlining a potential supervisory framework for measuring and controlling large exposures. The framework is conceptually analogous to the single-counterparty exposure limits proposed by the Federal Reserve in December 2011. The proposed Basel framework would limit a banking organization's exposure to an individual counterparty (which, as proposed, is broadly defined and includes entities under control of or economically interdependent with the borrower) to 10-15% of the banking organization's Tier 1 common equity.

From BNY Mellon's perspective, perhaps the most notable component of the large exposures proposal is the treatment of securities finance transactions, particularly securities lending transactions. As proposed, the framework eschews credit exposure measurement methodologies for securities finance transactions that firms have developed to comply with previous risk-based capital rules. Instead, the proposal includes a risk-insensitive measurement methodology that relies on static collateral haircuts.

Money Market Fund ("MMF") Reform

On June 5, 2013, the SEC issued proposed rules for institutional prime MMFs. The proposal sets forth two potential requirements, which could be adopted independently or combined. First, the SEC is proposing to require institutional prime funds to float their net asset values. The second proposed alternative seeks to limit redemptions during times of stress. Under this alternative, non-government MMFs would be required to impose a 2% liquidity fee and 30-day redemption gate if the fund's level of weekly liquid assets fell below 15% of its total assets, unless the fund's board determined that it was not in the best interest of the fund. That determination would be subject to the board's fiduciary duty.

Beyond these primary reform proposals, the SEC release proposes other potential changes, including tightening diversification requirements, enhancing disclosure requirements, strengthening stress testing and new reporting requirements for both MMFs and unregistered liquidity funds (these funds could serve as alternatives to money market funds for some investors).

Meanwhile, the European Commission ("EC") has been working on related MMF proposals that include restrictions on relying on external ratings, MMF capital and liquidity requirements, changes to permitted valuation methodologies, restrictions on certain repo and securities lending transactions, and stricter disclosure requirements. In addition, on July 23, 2013 the EC announced that it plans to publish additional regulations concerning MMFs in September 2013.

EMEA Regulatory Update and Developments

The Bank of New York Mellon SA/NV ("BNY Mellon SA/NV") is a public limited liability company incorporated under the laws of Belgium. BNY Mellon SA/NV, which has been granted a banking license by the National Bank of Belgium, is authorized to carry out all banking and savings activities as a credit institution. Effective Feb. 1, 2013, The Bank of New York Mellon (Ireland) Limited (the "Irish Bank") merged with the BNY Mellon SA/NV. As part of the merger process, BNY Mellon SA/NV established a branch in Ireland. As of and from Feb. 1, 2013, this branch carried on the business activity in Ireland which was previously conducted by the Irish Bank.

Certain of our financial services operations in the UK are subject to regulation by and supervision of the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"), whose functions were transferred to them from the previous Financial Services Authority effective April 1, 2013. The PRA is responsible for the authorization and prudential regulation of firms that carry on PRA-regulated activities, including banks. PRA-authorized firms are also subject to regulation by the FCA for conduct purposes. In contrast, FCA-

authorized firms (such as investment management firms) have the FCA as their sole regulator for both prudential and conduct purposes. As a result, FCA-authorized firms must comply with FCA prudential and conduct rules and the FCA's Principles for Businesses, while dual-regulated firms must comply with the FCA conduct rules and FCA Principles, as well as the applicable PRA prudential rules and the PRA's Principles for Businesses.

The PRA regulates The Bank of New York Mellon (International) Limited, our UK chartered bank, as well as the UK branches of The Bank of New York Mellon and BNY Mellon SA/NV. Certain of BNY Mellon's UK incorporated subsidiaries are authorized to conduct investment business in the UK. Their investment management advisory activities and their sale and marketing of retail investment products are regulated by the FCA. Certain UK investment funds, including BNY Mellon Investment Funds, are registered with the FCA and are offered for retail sale in the UK.

The European Union ("EU") Commission has proposed a regulation conferring powers on the European Central Bank (the "ECB") for the prudential supervision of all banks in the Eurozone, with a mechanism for non-EU countries to join on a voluntary basis. The ECB and EU Member State National Competent Authorities will together be a Single Supervisory Mechanism ("SSM"). Certain of BNY Mellon's European subsidiaries are expected to fall within the SSM, including BNY Mellon SA/NV.

The European Parliament considered a Recovery and Resolution Directive on May 14, 2013, which contemplates a recovery and resolution framework for the EU. This directive would provide for resolution planning and a set of harmonized powers to resolve or implement recovery of relevant institutions, including branches of non-European Economic Area ("EEA") banks operating within the EEA. The directive includes the preparation of recovery and resolution plans, giving relevant EEA regulators powers to impose requirements on an institution before resolution actions become necessary, giving authorities a set of resolution tools and powers to facilitate the resolution of failing entities, such as the power to “bail-in” the debt of an institution (including certain deposit obligations), and the power to require a firm to change its structure to remove impediments to resolvability. Various BNY

Mellon subsidiaries and branches could fall within the scope of this directive.

In addition, the Capital Requirements Directive IV (and related regulation) ("CRD IV") is expected to affect BNY Mellon's EU subsidiaries by implementing Basel III and other changes, including the enhancement of the quality of capital and the strengthening of capital requirements for counterparty credit risk, resulting in higher capital requirements. Elements of CRD IV will apply not only to BNY Mellon banking branches and subsidiaries but also to investment management and brokerage entities. The Directive is expected to become effective Jan. 1, 2014.

Businesses within BNY Mellon's Investment Management and Investment Services segments are subject to significant foreign regulation relating to, among other things, the safeguarding, administration and management of client assets and client funds. Certain European directives are expected to affect our provision of these services, including revisions to the Markets in Financial Instruments Directive, the new Alternative Investment Fund Managers Directive, the Directive on Undertakings for Collective Investments in Transferable Securities, the Central Securities Depository Regulation, the European Market Infrastructure Regulation and the Securities Law Legislation. These new and revised European directives are expected to impact our operations and risk profile, and also to provide new opportunities for the provision of BNY Mellon products and services.

Website information

Our website is www.bnymellon.com. We currently make available the following information under the Investor Relations portion of our website. With respect to SEC filings, we post such information 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;
- Other regulatory disclosures, including: Basel II.5 Market Risk Disclosures; Basel II Pillar 3 Disclosures; Federal Financial Institutions Examination Council - Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices; Consolidated Financial Statements for Bank Holding Companies; and the Dodd-Frank Act Stress Test Results for BNY Mellon and The Bank of New York Mellon; 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 Office of the Secretary of The Bank of New York Mellon Corporation, One Wall Street, New York, NY 10286.

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

Consolidated Income Statement (unaudited)

(in millions)	Quarter ended June 30, 2013	March 31, 2013	June 30, 2012	Year-to-date June 30, 2013	June 30, 2012
Fee and other revenue					
Investment services fees:					
Asset servicing	$988	$969	$950	$1,957	$1,893
Issuer services	294	237	275	531	526
Clearing services	321	304	309	625	612
Treasury services	139	141	134	280	270
Total investment services fees	1,742	1,651	1,668	3,393	3,301
Investment management and performance fees	848	822	797	1,670	1,542
Foreign exchange and other trading revenue	207	161	180	368	371
Distribution and servicing	45	49	46	94	92
Financing-related fees	44	41	37	85	81
Investment and other income	269	72	48	341	187
Total fee revenue	3,155	2,796	2,776	5,951	5,574
Net securities gains—including other-than-temporary impairment	35	48	70	83	142
Noncredit-related gains on securities not expected to be sold (recognized in OCI)	3	—	20	3	52
Net securities gains	32	48	50	80	90
Total fee and other revenue	3,187	2,844	2,826	6,031	5,664
Operations of consolidated investment management funds					
Investment income	159	146	152	305	305
Interest of investment management fund note holders	94	96	95	190	205
Income from consolidated investment management funds	65	50	57	115	100
Net interest revenue					
Interest revenue	836	815	875	1,651	1,787
Interest expense	79	96	141	175	288
Net interest revenue	757	719	734	1,476	1,499
Provision for credit losses	(19)	(24)	(19)	(43)	(14)
Net interest revenue after provision for credit losses	776	743	753	1,519	1,513
Noninterest expense					
Staff	1,509	1,472	1,415	2,981	2,868
Professional, legal and other purchased services	317	295	309	612	608
Net occupancy	159	163	141	322	288
Software	157	140	127	297	246
Distribution and servicing	111	106	103	217	204
Furniture and equipment	81	88	82	169	168
Business development	90	68	71	158	127
Sub-custodian	77	64	70	141	140
Other	215	307	254	522	474
Amortization of intangible assets	93	86	97	179	193
Merger and integration, litigation and restructuring charges	13	39	378	52	487
Total noninterest expense	2,822	2,828	3,047	5,650	5,803

Income (loss)					
Income before income taxes	1,206	809	589	2,015	1,474
Provision for income taxes	321	1,046	93	1,367	347
Net income (loss)	885	(237)	496	648	1,127
Net (income) attributable to noncontrolling interests (includes $(39), $(16), $(29), $(55) and $(40) related to consolidated investment management funds, respectively)	(40)	(16)	(30)	(56)	(42)
Net income (loss) applicable to shareholders of The Bank of New York Mellon Corporation	845	(253)	466	592	1,085
Preferred stock dividends	(12)	(13)	—	(25)	—
Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation	$833	$(266)	$466	$567	$1,085

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

Consolidated Income Statement (unaudited) (continued)

Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation used for the earnings per share calculation	Quarter ended			Year-to-date	
(in millions)	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation	$833	$ (266)	$466	$567	$1,085
Less: Earnings allocated to participating securities (a)	15	2	7	10	15
Change in the excess of redeemable value over the fair value of noncontrolling interests	—	1	1	1	(5)
Net income (loss) 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	$818	$ (269)	$458	$556	$1,075

(a) In a period with net income, both earnings and dividends are allocated to participating securities. In a period with a net loss, only dividends are allocated to participating securities. As a result, the earnings allocated to participating securities for the six months ended June 30, 2013 do not equal the earnings allocated to participating securities for the three months ended June 30, 2013 and March 31, 2013 in aggregate.

Average common shares and equivalents outstanding of The Bank of New York Mellon Corporation	Quarter ended			Year-to-date	
(in thousands)	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Basic	1,152,545	1,158,819	1,181,350	1,155,667	1,187,649
Common stock equivalents	15,589	—	9,414	15,746	9,263
Less: Participating securities	(12,153)	—	(7,779)	(12,244)	(7,648)
Diluted (a)	1,155,981	1,158,819	1,182,985	1,159,169	1,189,264
Anti-dilutive securities (b)	78,825	81,659	94,650	78,418	93,315

Earnings per share applicable to the common shareholders of The Bank of New York Mellon Corporation (c)	Quarter ended			Year-to-date	
(in dollars)	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Basic	$0.71	$ (0.23)	$0.39	$0.48	$0.91
Diluted (a)	$0.71	$ (0.23)	$0.39	$0.48	$0.90

(a) Diluted earnings per share for the three months ended March 31, 2013 was calculated using average basic shares. Adding back the dilutive shares would result in anti-dilution.

(b) 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.

(c) Basic and diluted earnings per share under the two-class method are determined on the net income applicable to 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.

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

Consolidated Comprehensive Income Statement (unaudited)

(in millions)	Quarter ended June 30, 2013	March 31, 2013	June 30, 2012	Year-to-date June 30, 2013	June 30, 2012
Net income (loss)	$885	$(237)	$496	$648	$1,127
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	5	(309)	(265)	(304)	(93)
Unrealized gain (loss) on assets available-for-sale:					
Unrealized gain (loss) arising during the period	(736)	(6)	197	(742)	434
Reclassification adjustment	(17)	(30)	(35)	(47)	(59)
Total unrealized gain (loss) on assets available-for-sale	(753)	(36)	162	(789)	375
Defined benefit plans:					
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	31	43	24	74	51
Total defined benefit plans	31	43	24	74	51
Net unrealized gain (loss) on cash flow hedges	(9)	1	—	(8)	3
Total other comprehensive income (loss), net of tax (a)	(726)	(301)	(79)	(1,027)	336
Net (income) attributable to noncontrolling interests	(40)	(16)	(30)	(56)	(42)
Other comprehensive (income) loss attributable to noncontrolling interests	(10)	29	28	19	11
Net comprehensive income (loss)	$109	$(525)	$415	$(416)	$1,432

(a) Other comprehensive income (loss) attributable to The Bank of New York Mellon Corporation shareholders was $(736) million for the quarter ended June 30, 2013, $(272) million for the quarter ended March 31, 2013, $(51) million for the quarter ended June 30, 2012, $(1,008) million for the six months ended June 30, 2013 and $347 million for the six months ended June 30, 2012.

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Balance Sheet (unaudited)

(dollars in millions, except per share amounts)	June 30, 2013	Dec. 31, 2012
Assets		
Cash and due from:		
Banks	$6,940	$4,727
Interest-bearing deposits with the Federal Reserve and other central banks	77,150	90,110
Interest-bearing deposits with banks	42,145	43,910
Federal funds sold and securities purchased under resale agreements	9,978	6,593
Securities:		