

Bank of New York Mellon Corp  
Form 10-Q  
November 08, 2013

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

FORM 10-Q

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

For the Quarterly Period Ended September 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  
(State or other jurisdiction of  
incorporation or organization)

13-2614959  
(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  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  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

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

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<br>September 30, 2013 |
|--------------------------------|---|
| Common Stock, \$0.01 par value | 1,148,521,551                           |

---

THE BANK OF NEW YORK MELLON CORPORATION

Third Quarter 2013 Form 10-Q  
Table of Contents

|  | Page      |
|--|-----------|
| <u>Consolidated Financial Highlights (unaudited)</u>   | <u>2</u>  |
| 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: |           |
| <u>General</u>   | <u>4</u>  |
| <u>Overview</u>  | <u>4</u>  |
| <u>Key third quarter 2013 and subsequent events</u>  | <u>4</u>  |
| <u>Highlights of third quarter 2013 results</u>  | <u>5</u>  |
| <u>Fee and other revenue</u>   | <u>7</u>  |
| <u>Net interest revenue</u>  | <u>11</u> |
| <u>Average balances and interest rates</u>   | <u>12</u> |
| <u>Noninterest expense</u>   | <u>14</u> |
| <u>Income taxes</u>  | <u>16</u> |
| <u>Review of businesses</u>  | <u>16</u> |
| <u>Critical accounting estimates</u>   | <u>26</u> |
| <u>Consolidated balance sheet review</u>   | <u>27</u> |
| <u>Liquidity and dividends</u>   | <u>40</u> |
| <u>Capital</u>   | <u>44</u> |
| <u>Trading activities and risk management</u>  | <u>47</u> |
| <u>Foreign exchange and other trading</u>  | <u>49</u> |
| <u>Asset/liability management</u>  | <u>50</u> |
| <u>Off-balance sheet arrangements</u>  | <u>51</u> |
| <u>Supplemental information - Explanation of GAAP and Non-GAAP financial measures</u>  | <u>52</u> |
| <u>Recent accounting and regulatory developments</u>   | <u>57</u> |
| <u>Website information</u>   | <u>63</u> |
| Item 1. Financial Statements:  |           |
| <u>Consolidated Income Statement (unaudited)</u>   | <u>64</u> |
| <u>Consolidated Comprehensive Income Statement (unaudited)</u>   | <u>66</u> |
| <u>Consolidated Balance Sheet (unaudited)</u>  | <u>67</u> |
| <u>Consolidated Statement of Cash Flows (unaudited)</u>  | <u>68</u> |
| <u>Consolidated Statement of Changes in Equity (unaudited)</u>   | <u>69</u> |
| Notes to Consolidated Financial Statements:  |           |
| <u>Note 1—Basis of presentation</u>  | <u>70</u> |
| <u>Note 2—Accounting changes and new accounting guidance</u>   | <u>70</u> |
| <u>Note 3—Acquisitions and dispositions</u>  | <u>71</u> |
| <u>Note 4—Securities</u>   | <u>72</u> |
| <u>Note 5—Loans and asset quality</u>  | <u>76</u> |
| <u>Note 6—Goodwill and intangible assets</u>   | <u>83</u> |
| <u>Note 7—Other assets</u>   | <u>85</u> |

|   |            |
|---|------------|
| <u>Note 8—Net interest revenue</u>  | <u>86</u>  |
| <u>Note 9—Employee benefit plans</u>  | <u>86</u>  |
| <u>Note 10—Restructuring charges</u>  | <u>87</u>  |
| <u>Note 11—Income taxes</u>   | <u>87</u>  |
| <u>Note 12—Securitizations and variable interest entities</u>                       | <u>88</u>  |
| <u>Note 13—Preferred stock</u>  | <u>89</u>  |
| <u>Note 14—Other comprehensive income (loss)</u>                                    | <u>91</u>  |
| <u>Note 15—Fair value measurement</u>   | <u>92</u>  |
| <u>Note 16—Fair value option</u>  | <u>108</u> |
| <u>Note 17—Derivative instruments</u>   | <u>108</u> |
| <u>Note 18—Commitments and contingent liabilities</u>                               | <u>113</u> |
| <u>Note 19—Lines of businesses</u>  | <u>118</u> |
| <u>Note 20—Supplemental information to the Consolidated Statement of Cash Flows</u> | <u>121</u> |
| <br>  |            |
| <u>Item 4. Controls and Procedures</u>  | <u>122</u> |
| <u>Forward-looking Statements</u>   | <u>123</u> |
| <br>  |            |
| Part II - Other Information   |            |
| <u>Item 1. Legal Proceedings</u>  | <u>125</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>          | <u>125</u> |
| <u>Item 6. Exhibits</u>   | <u>125</u> |
| <br>  |            |
| <u>Signature</u>  | <u>126</u> |
| <u>Index to Exhibits</u>  | <u>127</u> |

---

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

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

Consolidated Financial Highlights (unaudited)

| (dollar amounts in millions, except per share amounts and unless otherwise noted)     | Quarter ended  |               |                | Year-to-date   |                |   |
|---|----------------|---------------|----------------|----------------|----------------|---|
|   | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 | Sept. 30, 2013 | Sept. 30, 2012 |   |
| Results applicable to common shareholders of The Bank of New York Mellon Corporation: |                |               |                |                |                |   |
| Net income  | \$967          | \$833         | \$720          | \$1,534        | \$1,805        |   |
| Basic EPS   | 0.83           | 0.71          | 0.61           | 1.31           | 1.51           |   |
| Diluted EPS   | 0.82           | 0.71          | 0.61           | 1.30           | 1.51           |   |
| Fee and other revenue   | \$2,963        | \$3,187       | \$2,879        | \$8,994        | \$8,543        |   |
| Income from consolidated investment management funds                                  | 32             | 65            | 47             | 147            | 147            |   |
| Net interest revenue  | 772            | 757           | 749            | 2,248          | 2,248          |   |
| Total revenue   | \$3,767        | \$4,009       | \$3,675        | \$11,389       | \$10,938       |   |
| Return on common equity (annualized) (a)  | 11.2           | %9.7          | %8.3           | % 5.9          | %7.1           | % |
| Non-GAAP (a) (b)  | 8.9            | %10.5         | %9.2           | % 9.0          | %9.0           | % |
| Return on tangible common equity (annualized) – Non-GAAP (a)                          | 28.4           | %25.0         | %22.1          | % 15.8         | %19.6          | % |
| Non-GAAP adjusted (a) (b)   | 21.5           | %25.2         | %22.5          | % 21.7         | %22.6          | % |
| Return on average assets (annualized)   | 1.12           | %0.99         | %0.90          | % 0.61         | %0.78          | % |
| Fee revenue as a percentage of total revenue excluding net securities gains           | 79             | %79           | %78            | % 79           | %78            | % |
| Annualized fee revenue per employee (based on average headcount) (in thousands)       | \$232          | \$254         | \$235          | \$238          | \$233          |   |
| Percentage of non-U.S. total revenue (c)  | 39             | %36           | %37            | % 37           | %37            | % |
| Pre-tax operating margin (a)  | 26             | %30           | %27            | % 26           | %22            | % |
| Non-GAAP adjusted (a) (b)   | 29             | %32           | %29            | % 29           | %29            | % |
| Net interest margin (FTE)   | 1.16           | %1.15         | %1.20          | % 1.14         | %1.25          | % |
| Assets under management at period end (in billions) (d)                               | \$1,532        | \$1,432       | \$1,359        | \$1,532        | \$1,359        |   |
| Assets under custody and/or administration at period end (in trillions) (e)           | \$27.4         | \$26.2        | \$26.4         | \$27.4         | \$26.4         |   |
| Market value of securities on loan at period end (in billions) (f)                    | \$255          | \$255         | \$251          | \$255          | \$251          |   |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Average common shares and equivalents  
outstanding (in thousands):

|         |           |           |           |           |           |
|---------|-----------|-----------|-----------|-----------|-----------|
| Basic   | 1,148,724 | 1,152,545 | 1,169,674 | 1,153,327 | 1,181,614 |
| Diluted | 1,152,679 | 1,155,981 | 1,171,534 | 1,156,951 | 1,183,309 |

Capital ratios:

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

|  |      |        |        |        |        |   |
|--|------|--------|--------|--------|--------|---|
| (g):   |      |        |        |        |        |   |
| Standardized Approach  | 10.1 | % 9.3  | % N/A  | 10.1   | % N/A  |   |
| Advanced Approach  | 11.1 | % 9.8  | % 9.3  | % 11.1 | % 9.3  | % |
| Basel I Tier 1 common equity to risk-weighted<br>assets<br>ratio – Non-GAAP (a)                          | 14.2 | % 13.2 | % 13.3 | % 14.2 | % 13.3 | % |
| Basel I Tier 1 capital ratio   | 15.8 | % 14.8 | % 15.3 | % 15.8 | % 15.3 | % |
| Basel I Total (Tier 1 plus Tier 2) capital ratio   | 16.8 | % 15.8 | % 16.9 | % 16.8 | % 16.9 | % |
| Basel I leverage capital ratio   | 5.6  | % 5.3  | % 5.6  | % 5.6  | % 5.6  | % |
| BNY Mellon shareholders' equity to total assets ratio<br>(a)   | 9.9  | % 10.0 | % 10.7 | % 9.9  | % 10.7 | % |
| BNY Mellon common shareholders' equity to total<br>assets ratio (a)                                      | 9.5  | % 9.5  | % 10.3 | % 9.5  | % 10.3 | % |
| BNY Mellon tangible common shareholders' equity<br>to tangible assets of operations ratio – Non-GAAP (a) | 6.4  | % 5.8  | % 6.3  | % 6.4  | % 6.3  | % |

2 BNY Mellon

---

## Consolidated Financial Highlights (unaudited) (continued)

| (dollar amounts in millions, except per share amounts and unless otherwise noted) | Quarter ended  |               |                | Year-to-date   |                |   |
|---|----------------|---------------|----------------|----------------|----------------|---|
|   | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 | Sept. 30, 2013 | Sept. 30, 2012 |   |
| Selected average balances:  |                |               |                |                |                |   |
| Interest-earning assets   | \$271,150      | \$268,481     | \$255,228      | \$268,480      | \$243,814      |   |
| Assets of operations  | \$329,887      | \$325,931     | \$307,919      | \$326,020      | \$297,219      |   |
| Total assets  | \$341,750      | \$337,455     | \$318,914      | \$337,651      | \$308,459      |   |
| Interest-bearing deposits   | \$153,547      | \$151,219     | \$138,260      | \$150,853      | \$131,418      |   |
| Noninterest-bearing deposits  | \$72,075       | \$70,648      | \$70,230       | \$71,026       | \$66,581       |   |
| Preferred stock   | \$1,562        | \$1,350       | \$611          | \$1,328        | \$225          |   |
| Total The Bank of New York Mellon Corporation common shareholders' equity         | \$34,264       | \$34,467      | \$34,522       | \$34,541       | \$34,123       |   |
| Other information at period end:  |                |               |                |                |                |   |
| Cash dividends per common share   | \$0.15         | \$0.15        | \$0.13         | \$0.43         | \$0.39         |   |
| Common dividend payout ratio (h)  | 18             | %21           | %21            | %33            | %26            | % |
| Common dividend yield (annualized)  | 2.0            | %2.1          | %2.3           | %1.9           | %2.3           | % |
| Closing common stock price per common share                                       | \$30.19        | \$28.05       | \$22.62        | \$30.19        | \$22.62        |   |
| Market capitalization   | \$34,674       | \$32,271      | \$26,434       | \$34,674       | \$26,434       |   |
| Book value per common share – GAAP (a)  | \$30.82        | \$29.83       | \$30.11        | \$30.82        | \$30.11        |   |
| Tangible book value per common share – Non-GAAP (a)                               | \$13.36        | \$12.41       | \$12.59        | \$13.36        | \$12.59        |   |
| Full-time employees   | 50,800         | 49,800        | 48,700         | 50,800         | 48,700         |   |

Common share outstanding (in thousands) 1,148,522 1,150,477 1,168,607 1,148,522 1,168,607

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

(b) Non-GAAP excludes merger and integration (“M&I”), litigation, restructuring charges and the impact of the U.S. Tax Court’s decisions regarding certain foreign tax credits, if applicable.

(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.

Includes the AUC/A of CIBC Mellon Global Securities Services Company (“CIBC Mellon”), a joint venture with the

(e) Canadian Imperial Bank of Commerce, of \$1.2 trillion at Sept. 30, 2013, \$1.1 trillion at June 30, 2013 and \$1.2 trillion at Sept. 30, 2012.

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

At Sept. 30, 2013 and June 30, 2013, the estimated Basel III Tier 1 common equity ratio is based on our interpretation of and expectations regarding the Final Capital Rules released by the Board of Governors of the

(g) Federal Reserve System (the “Federal Reserve”) on July 2, 2013, on a fully phased-in basis. 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, on a fully phased-in basis.

(h) The common dividend payout ratio was 24% for the first nine months of 2013 after adjusting for the impact of the U.S. Tax Court’s decisions regarding certain foreign tax credits.

N/A – Not available.

BNY Mellon 3

---



## Part I - Financial Information

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

#### General

In this Quarterly Report on Form 10-Q, references to "our," "we," "us," "BNY Mellon," the "Company" and similar terms refer to The Bank of New 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, certain 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 GAAP and 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 Sept. 30, 2013, BNY Mellon had \$27.4 trillion in assets under custody and/or administration, and \$1.5 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 third quarter 2013 and subsequent events

##### Proposed rulemaking concerning implementation of minimum liquidity standards

On Oct. 24, 2013, the Federal Reserve approved a notice of proposed rulemaking developed jointly with the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") regarding the U.S. implementation of the Basel III liquidity coverage ratio (the "LCR Notice"). The LCR Notice would establish a quantitative liquidity coverage ratio requirement for certain banking organizations, including BNY Mellon, designed to ensure that such organizations maintain an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario. This proposal is

expected to be open for comment until Jan. 31, 2014. For additional information regarding the LCR Notice, see “Recent accounting and regulatory developments - Regulatory developments”.

4 BNY Mellon

---

### Sale of Newton's private client business

On Sept. 27, 2013, Newton Management Limited, together with Newton Investment Management Limited, an investment boutique of BNY Mellon, sold Newton's private client business. Assets under management related to Newton's private client business totaled \$3 billion on Sept. 27, 2013. As a result of this sale, we recorded a pre-tax gain of \$27 million and an after-tax gain of \$5 million.

### U.S. Tax Court ruling

As previously disclosed, the U.S. Tax Court, on Sept. 23, 2013, amended its prior ruling that disallowed certain foreign tax credits that BNY Mellon claimed for the 2001 and 2002 tax years. The new ruling increased the interest expense that BNY Mellon could deduct as a valid business expense and excluded certain items from BNY Mellon's taxable income for those years. The combination of these items for all years involved and related interest, increased after-tax income in the third quarter of 2013 by \$261 million, or \$0.22 per diluted common share. The U.S. Tax Court has not made a final ruling on these amounts, so there could be further adjustments in future periods.

### New risk-based and leverage regulatory capital rules

In July 2013, the federal banking agencies finalized rules (the "Final Capital Rules") revising the capital framework applicable to U.S. bank holding companies ("BHCs") and banks. The Final Capital 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 Capital Rules establish a graduated implementation schedule and will be principally phased-in by 2019. In general, the Final Capital Rules largely adhere to the rules as initially proposed in June 2012 and as summarized in the Company's 2012 Annual Report. Our estimated Basel III Tier 1 common equity ratio (Non-GAAP) calculated under the Standardized Approach and based on our interpretation of and expectations regarding the Final Capital Rules, on a fully phased-in basis, was 10.1% at Sept. 30, 2013 and 9.3% at

June 30, 2013. For additional information on the Final Capital Rules, see "Capital" and "Recent accounting and regulatory developments - Regulatory developments".

### Supplementary leverage ratio proposals

The Final Capital Rules implement, among other things, for Advanced Approaches banking organizations, including the Company, a new Basel III-based supplementary leverage ratio with a minimum of 3%, to become effective Jan. 1, 2018. In addition, 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.

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, including BNY Mellon. 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, including our largest banking subsidiary, The Bank of New York Mellon.

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

Highlights of third quarter 2013 results

In the third quarter of 2013, we reported net income applicable to common shareholders of BNY Mellon of \$967 million, or \$0.82 per diluted common share, including a \$261 million, or \$0.22 per diluted common share, benefit related to the U.S. Tax Court’s partial reconsideration of a tax decision. These results compare with \$720 million, or \$0.61 per diluted common share, in the third quarter of 2012 and \$833 million, or \$0.71 per diluted common share, in the second quarter of 2013. The second quarter of 2013 results include an after-tax gain of \$109 million,

BNY Mellon 5

---

or \$0.09 per diluted common share, related to an equity investment.

Highlights of the third quarter 2013 include:

Assets under custody and/or administration (“AUC/A”) totaled \$27.4 trillion at Sept. 30, 2013 compared with \$26.4 trillion at Sept. 30, 2012 and \$26.2 trillion at June 30, 2013. The year-over-year increase of 4% primarily reflects higher market values and net new business. See the “Investment Services business” beginning on page 22.)

Assets under management (“AUM”) totaled a record \$1.53 trillion at Sept. 30, 2013 compared with \$1.36 trillion at Sept. 30, 2012 and \$1.43 trillion at June 30, 2013. The year-over-year increase of 13% primarily resulted from net new business and higher market values. (See the “Investment Management business” beginning on page 19).

Investment services fees increased 4% in the third quarter of 2013 compared with the third quarter of 2012. The increase was driven by higher clearing services, asset servicing, and issuer services revenue. (See the “Investment Services business” beginning on page 22).

Investment management and performance fees totaled \$821 million in the third quarter of 2013, an increase of 5%, compared with \$779 million in the third quarter of 2012. The increase was driven by higher equity market values and net new business, partially offset by the average impact of the stronger U.S. dollar. (See the “Investment Management business” beginning on page 19).

Foreign exchange and other trading revenue totaled \$160 million in the third quarter of 2013 compared with \$182 million in the third quarter of 2012. In the third quarter of 2013, foreign exchange revenue increased 27% year-over-year, driven by higher volumes and volatility. Other trading revenue decreased in the third quarter of 2013 reflecting lower fixed income trading. (See “Fee and other revenue” beginning on page 7).

Investment income and other revenue totaled \$135 million in the third quarter of 2013 compared with \$124 million in the third quarter of 2012. The increase primarily resulted from higher equity investment revenue, partially offset by lower seed capital gains. (See “Fee and other revenue” beginning on page 7).

Net interest revenue totaled \$772 million in the third quarter of 2013 compared with \$749 million in the third quarter of 2012. The increase was primarily driven by lower premium amortization on investment securities, higher average interest-earning assets, a change in the mix of earning assets, and lower funding costs. (See “Net interest revenue” beginning on page 11).

The net unrealized pre-tax gain on our total investment securities portfolio was \$723 million at Sept. 30, 2013 compared with \$656 million at June 30, 2013. The increase primarily reflects lower credit spreads on foreign securities. (See “Investment securities” beginning on page 30).

The provision for credit losses was \$2 million in the third quarter of 2013 and a credit of \$5 million in the the third quarter of 2012. (See “Asset quality and allowance for credit losses” beginning on page 35).

Noninterest expense totaled \$2.8 billion in the third quarter of 2013 compared with \$2.7 billion in the third quarter of 2012. The increase primarily resulted from higher staff expense. (See “Noninterest expense” beginning on page 14).

The benefit for income taxes totaled \$2 million for the third quarter of 2013 and included a benefit of \$261 million related to the U.S. Tax Court’s partial reconsideration of a tax decision. This compared with an income tax provision of \$225 million (23.1% effective tax rate) in the third quarter of 2012. (See “Income taxes” on page 16).

At Sept. 30, 2013, our estimated Basel III Tier 1 common equity ratio (Non-GAAP) calculated under the Standard Approach, on a fully phased-in basis, was 10.1% compared with 9.3% at June 30, 2013. (See “Capital” beginning on page 44).

In the third quarter of 2013, we repurchased 3.9 million common shares in the open market, at an average price of \$31.28 per share, for a total of \$121 million.

From Oct. 1, 2013 through Nov. 7, 2013, we repurchased 10.0 million common shares in the open market, at an average price of \$31.83 per common share for a total of \$318 million.



Fee and other revenue

| Fee and other revenue                         |         |         | 3Q13 vs. |       | Year-to-date |         | YTD13 vs. |       |
|---|---------|---------|----------|-------|--------------|---------|-----------|-------|
| (dollars in millions, unless otherwise noted) | 3Q13    | 2Q13    | 3Q12     | 3Q12  | 2Q13         | 2013    | 2012      | YTD12 |
| Investment services fees:                     |         |         |          |       |              |         |           |       |
| Asset servicing (a)                           | \$964   | \$988   | \$942    | 2     | %(2 )%       | \$2,921 | \$2,835   | 3 %   |
| Issuer services                               | 322     | 294     | 311      | 4     | 10           | 853     | 837       | 2     |
| Clearing services                             | 315     | 321     | 287      | 10    | (2 )         | 940     | 899       | 5     |
| Treasury services                             | 137     | 139     | 138      | (1 )  | (1 )         | 417     | 408       | 2     |
| Total investment services fees                | 1,738   | 1,742   | 1,678    | 4     | —            | 5,131   | 4,979     | 3     |
| Investment management and performance fees    | 821     | 848     | 779      | 5     | (3 )         | 2,491   | 2,321     | 7     |
| Foreign exchange and other trading revenue    | 160     | 207     | 182      | (12 ) | (23 )        | 528     | 553       | (5 )  |
| Distribution and servicing                    | 43      | 45      | 48       | (10 ) | (4 )         | 137     | 140       | (2 )  |
| Financing-related fees                        | 44      | 44      | 46       | (4 )  | —            | 129     | 127       | 2     |
| Investment and other income                   | 135     | 269     | 124      | 9     | N/M          | 476     | 311       | N/M   |
| Total fee revenue                             | 2,941   | 3,155   | 2,857    | 3     | (7 )         | 8,892   | 8,431     | 5     |
| Net securities gains                          | 22      | 32      | 22       | N/M   | N/M          | 102     | 112       | N/M   |
| Total fee and other revenue - GAAP            | \$2,963 | \$3,187 | \$2,879  | 3     | %(7 )%       | \$8,994 | \$8,543   | 5 %   |

Fee revenue as a percentage of total revenue excluding net securities gains

|  |    |     |     |   |  |    |     |   |
|--|----|-----|-----|---|--|----|-----|---|
|  | 79 | %79 | %78 | % |  | 79 | %78 | % |
|--|----|-----|-----|---|--|----|-----|---|

|  |         |         |         |    |    |   |         |         |    |   |
|--|---------|---------|---------|----|----|---|---------|---------|----|---|
| AUM at period end (in billions) (b)    | \$1,532 | \$1,432 | \$1,359 | 13 | %7 | % | \$1,532 | \$1,359 | 13 | % |
| AUC/A at period end (in trillions) (c) | \$27.4  | \$26.2  | \$26.4  | 4  | %5 | % | \$27.4  | \$26.4  | 4  | % |

Asset servicing fees include securities lending revenue of \$35 million in the third quarter of 2013, \$50 million in (a) the second quarter of 2013, \$49 million in the third quarter of 2012, \$124 million in the first nine months of 2013 and \$157 million in the first nine months of 2012.

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

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

N/M - Not meaningful.

Fee and other revenue

Fee and other revenue totaled \$3.0 billion in the third quarter of 2013, an increase of 3% year-over-year and a decrease of 7% (unannualized) sequentially. The year-over-year increase was driven by higher investment services fees and investment management and performance fees, partially offset by lower foreign exchange and other trading revenue. The sequential decrease was driven primarily by lower investment and other income, foreign exchange and other trading revenue and performance fees, partially offset by seasonally higher Depository Receipts revenue.

Investment services fees

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

Asset servicing fees increased 2% year-over-year and decreased 2% (unannualized) sequentially. The year-over-year increase primarily reflect

higher market values, organic growth and net new business, partially offset by lower securities lending revenue which resulted from narrower spreads. The sequential decrease primarily resulted from a seasonal decrease in securities lending revenue, lower activity and lower expense reimbursements.

Issuer services fees increased 4% year-over-year and 10% (unannualized) sequentially. The year-over-year increase primarily reflects higher Depositary Receipts revenue, partially offset by lower money market mutual fund balances and higher money market fee waivers in Corporate Trust. The sequential increase primarily resulted from seasonally higher Depositary Receipts revenue, partially offset by lower expense reimbursements in Corporate Trust. 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.

BNY Mellon 7

---



Clearing services fees increased 10% year-over-year and decreased 2% (unannualized) sequentially. The year-over-year increase was driven by higher mutual fund and asset-based fees and volumes, partially offset by higher money market fee waivers. The sequential decrease was primarily driven by seasonally lower clearance revenue reflecting a decrease in DARTs, and higher money market fee waivers.

Treasury services fees decreased 1% both year-over-year and (unannualized) sequentially. Both decreases primarily reflect lower 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 \$821 million in the third quarter of 2013, an increase of 5% year-over-year and a decrease of 3% (unannualized) sequentially. The year-over-year increase was primarily driven by higher equity market values and net new business, partially offset by the average impact of the stronger U.S. dollar. The sequential decrease primarily reflects seasonally lower performance fees, partially offset by net new business and higher equity market values. Comparisons to both prior periods were negatively impacted by higher money market fee waivers. Performance fees were \$10 million in both the third quarter of 2013 and the third quarter of 2012, and \$33 million in the second quarter of 2013.

Total AUM for the Investment Management business was a record \$1.53 trillion at Sept. 30, 2013, a 13% increase compared with the prior year and 7% increase sequentially. Both increases primarily resulted from net new business and higher market values. Long-term inflows totaled \$32 billion and short-term inflows totaled \$13 billion for the third quarter of 2013. Long-term inflows benefited from liability-driven investments, alternative investments and active equity and index 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

| (in millions)               | 3Q13  | 2Q13  | 3Q12  | Year-to-date |       |
|-----------------------------|-------|-------|-------|--------------|-------|
|                             |       |       |       | 2013         | 2012  |
| Foreign exchange            | \$154 | \$179 | \$121 | \$482        | \$414 |
| Other trading revenue:      |       |       |       |              |       |
| Fixed income                | (2    | ) 12  | 54    | 18           | 117   |
| Equity/other                | 8     | 16    | 7     | 28           | 22    |
| Total other trading revenue | 6     | 28    | 61    | 46           | 139   |
| Total                       | \$160 | \$207 | \$182 | \$528        | \$553 |

Foreign exchange and other trading revenue totaled \$160 million in the third quarter of 2013, \$182 million in the third quarter of 2012 and \$207 million in the second quarter of 2013. In the third quarter of 2013, foreign exchange revenue totaled \$154 million, an increase of 27% year-over-year and a decrease of 14% (unannualized) sequentially. The year-over-year increase primarily reflects higher volumes and volatility. The sequential decrease was primarily driven by lower volatility while volumes increased slightly. Other trading revenue was \$6 million in the third quarter of 2013 compared with \$61 million in the third quarter of 2012 and \$28 million in the second quarter of 2013. The decrease compared with both prior periods primarily reflects lower fixed income trading revenue due to lower derivatives trading revenue. The year-over-year decrease also reflects a loss on inventory driven by higher interest rates. 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 are 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

8 BNY Mellon

---

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 Sept. 30, 2013, our total revenue for all types of foreign exchange trading transactions was \$154 million, or approximately 4% of our total revenue and approximately 45% 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 \$43 million in the third quarter of 2013, \$48 million in the third quarter of 2012 and \$45 million in the second quarter of 2013. Both decreases were impacted by higher fee waivers. The year-over-year decrease also reflects the average impact of 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 third quarter of 2013, \$46 million in the third quarter of 2012 and \$44 million in the second quarter of 2013.

BNY Mellon 9

---

## Investment and other income

## Investment and other income

| (in millions)                             | 3Q13  | 2Q13  | 3Q12  | Year-to-date |       |
|---|-------|-------|-------|--------------|-------|
|   |       |       |       | 2013         | 2012  |
| Equity investment revenue                 | \$48  | \$200 | \$16  | \$261        | \$17  |
| Corporate/bank-owned life insurance       | 38    | 32    | 41    | 104          | 107   |
| Asset-related gains                       | 35    | 7     | 17    | 49           | 12    |
| Expense reimbursements from joint venture | 12    | 8     | 10    | 31           | 29    |
| Lease residual gains                      | 7     | 10    | —     | 18           | 37    |
| Seed capital gains                        | 7     | 1     | 28    | 14           | 52    |
| Transitional services agreements          | —     | 4     | 6     | 9            | 19    |
| Private equity gains (losses)             | (2    | )5    | (1    | )1           | 4     |
| Other income (loss)                       | (10   | )2    | 7     | (11          | )34   |
| Total investment and other income         | \$135 | \$269 | \$124 | \$476        | \$311 |

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes revenue from equity investments, insurance contracts, asset-related gains, expense reimbursements from the joint venture, lease residual gains, seed capital gains, transitional services agreements, gains and losses on private equity investments, and other income and loss. Asset-related gains include loan, real estate and other asset dispositions. Expense reimbursements from the joint venture relate to expenses incurred by BNY Mellon on behalf of the joint venture. 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 \$11 million compared with the third quarter of 2012 and decreased by \$134 million compared with the second quarter of 2013. The sequential decrease primarily reflects a gain related to an equity investment in the second quarter of 2013, partially offset by higher asset-related gains related to the sale of Newton's Private Client business.

## Net securities gains

Net securities gains totaled \$22 million in both the third quarter of 2013 and the third quarter of 2012, and \$32 million in the second quarter of 2013.

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

Fee and other revenue for the first nine months of 2013 totaled \$9.0 billion compared with \$8.5 billion in the first nine months of 2012. The increase primarily reflects higher investment management and performance fees, investment and other income and investment services fees, partially offset by lower foreign exchange and other trading revenue.

The increase in investment management and performance fees primarily reflects higher market values, net new business and the impact of the acquisition of the remaining 50% interest in Meriten Investment Management GmbH ("Meriten"), partially offset by the stronger U.S. dollar. The increase in investment and other income primarily reflects a gain related to an equity investment. The increase in investment services fees primarily reflects increased asset servicing fees driven by organic growth and higher market values, higher mutual fund and asset-based fees and clearance revenue reflecting an increase in DARTs and higher Depository Receipts revenue, partially offset by higher money market fee waivers and lower securities lending revenue. Net securities gains decreased \$10 million in the first nine months of 2013 compared with the first nine months of 2012.

10 BNY Mellon

---

## Net interest revenue

| Net interest revenue                  |           |           |           | 3Q13 vs. |       | Year-to-date |           | YTD13 vs. YTD12 |     |
|---------------------------------------|-----------|-----------|-----------|----------|-------|--------------|-----------|-----------------|-----|
| (dollars in millions)                 | 3Q13      | 2Q13      | 3Q12      | 3Q12     | 2Q13  | 2013         | 2012      |                 |     |
| Net interest revenue (non-FTE)        | \$772     | \$757     | \$749     | 3        | % 2   | \$2,248      | \$2,248   | —               | %   |
| Tax equivalent adjustment             | 15        | 14        | 16        | (6 )     | 7     | 43           | 40        | 8               |     |
| Net interest revenue (FTE) – Non-GAAP | 787       | 771       | 765       | 3        | % 2   | 2,291        | 2,288     | —               | %   |
| Average interest-earning assets       | \$271,150 | \$268,481 | \$255,228 | 6        | % 1   | \$268,480    | \$243,814 | 10              | %   |
| Net interest margin (FTE)             | 1.16      | % 1.15    | % 1.20    | % (4 )   | bps 1 | bps 1.14     | % 1.25    | % (11 )         | bps |

Net interest revenue totaled \$772 million in the third quarter of 2013, an increase of \$23 million compared with the third quarter of 2012 and \$15 million sequentially. Both increases were primarily driven by lower premium amortization on investment securities and higher average interest-earning assets. The year-over-year increase also reflects a change in the mix of earning assets and lower funding costs. Additionally the sequential increase was partially offset by a change in the mix of interest-earning assets and a decrease in the investment securities portfolio.

The net interest margin (FTE) was 1.16% in the third quarter of 2013 compared with 1.20% in the third quarter of 2012 and 1.15% in the second quarter of 2013. The year-over-year decrease in the net interest margin (FTE) primarily reflects higher average interest-earning assets and lower yields.

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

Net interest revenue totaled \$2.2 billion in both the first nine months of 2013 and the first nine months of 2012. Net interest revenue was unchanged as higher average interest-earning assets and lower premium amortization on investment securities were offset by lower yields .

The net interest margin (FTE) was 1.14% in the first nine months of 2013 compared with 1.25% in the first nine months of 2012. The decline in the net interest margin (FTE) was primarily driven by higher average interest-earning assets and lower yields.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Average balances and interest rates<br>(dollar amounts in millions, presented on an FTE basis) | Quarter ended<br>Sept. 30, 2013 |                  | June 30, 2013       |                  | Sept. 30, 2012      |                  |
|--|---------------------------------|------------------|---------------------|------------------|---------------------|------------------|
|  | Average<br>balances             | Average<br>rates | Average<br>balances | Average<br>rates | Average<br>balances | Average<br>rates |
| Assets   |                                 |                  |                     |                  |                     |                  |
| Interest-earning assets:   |                                 |                  |                     |                  |                     |                  |
| Interest-bearing deposits with banks<br>(primarily foreign banks)                              | \$41,597                        | 0.66 %           | \$42,772            | 0.64 %           | \$41,201            | 0.96 %           |
| Interest-bearing deposits held at the Federal Reserve and other central banks                  | 65,704                          | 0.23             | 55,911              | 0.22             | 61,849              | 0.21             |
| Federal funds sold and securities purchased under resale agreements                            | 8,864                           | 0.56             | 7,878               | 0.52             | 5,315               | 0.64             |
| Margin loans   | 14,653                          | 1.10             | 13,906              | 1.14             | 13,033              | 1.30             |
| Non-margin loans:  |                                 |                  |                     |                  |                     |                  |
| Domestic offices   | 21,378                          | 2.40             | 21,689              | 2.40             | 18,821              | 2.63             |
| Foreign offices  | 12,225                          | 1.31             | 12,318              | 1.32             | 10,574              | 1.61             |
| Total non-margin loans   | 33,603                          | 2.01             | 34,007              | 2.01             | 29,395              | 2.26             |
| Securities:  |                                 |                  |                     |                  |                     |                  |
| U.S. government obligations  | 16,540                          | 1.76             | 19,887              | 1.62             | 18,917              | 1.38             |
| U.S. government agency obligations   | 45,745                          | 2.02             | 47,631              | 1.80             | 41,430              | 1.94             |
| State and political subdivisions – tax-exempt  | 6,518                           | 2.47             | 6,377               | 2.26             | 5,933               | 2.57             |
| Other securities   | 32,403                          | 1.92             | 33,243              | 1.93             | 33,724              | 2.51             |
| Trading securities   | 5,523                           | 2.83             | 6,869               | 2.33             | 4,431               | 2.40             |
| Total securities   | 106,729                         | 2.02             | 114,007             | 1.86             | 104,435             | 2.06             |
| Total interest-earning assets  | \$271,150                       | 1.28 %           | \$268,481           | 1.27 %           | \$255,228           | 1.40 %           |
| Allowance for loan losses  | (212 )                          |                  | (237 )              |                  | (361 )              |                  |
| Cash and due from banks  | 6,400                           |                  | 5,060               |                  | 4,276               |                  |
| Other assets   | 52,549                          |                  | 52,627              |                  | 48,776              |                  |
| Assets of consolidated investment management funds   | 11,863                          |                  | 11,524              |                  | 10,995              |                  |
| Total assets   | \$341,750                       |                  | \$337,455           |                  | \$318,914           |                  |
| Liabilities  |                                 |                  |                     |                  |                     |                  |
| Interest-bearing liabilities:  |                                 |                  |                     |                  |                     |                  |
| Interest-bearing deposits:   |                                 |                  |                     |                  |                     |                  |
| Money market rate accounts   | \$5,509                         | 0.20 %           | \$5,746             | 0.27 %           | \$9,004             | 0.16 %           |
| Savings  | 1,015                           | 0.25             | 897                 | 0.24             | 730                 | 0.17             |
| Demand deposits  | 3,117                           | 0.08             | 2,437               | 0.09             | 720                 | 0.11             |
| Time deposits  | 41,546                          | 0.04             | 41,706              | 0.04             | 34,193              | 0.07             |
| Foreign offices  | 102,360                         | 0.07             | 100,433             | 0.07             | 93,613              | 0.10             |
| Total interest-bearing deposits  | 153,547                         | 0.06             | 151,219             | 0.07             | 138,260             | 0.10             |
| Federal funds purchased and securities sold under repurchase agreements                        | 12,164                          | (0.12 )          | 9,206               | (0.28 )          | 10,092              | (0.06 )          |
| Trading liabilities  | 2,325                           | 1.69             | 3,036               | 1.40             | 1,397               | 1.87             |
| Other borrowed funds   | 1,047                           | 0.35             | 1,385               | 0.20             | 887                 | 1.31             |
| Commercial paper   | 1,186                           | 0.05             | 58                  | 0.04             | 968                 | 0.12             |
| Payables to customers and broker-dealers   | 8,659                           | 0.09             | 9,073               | 0.08             | 8,141               | 0.10             |
| Long-term debt   | 19,025                          | 1.00             | 19,002              | 0.94             | 19,535              | 1.66             |
| Total interest-bearing liabilities   | \$197,953                       | 0.16 %           | \$192,979           | 0.16 %           | \$179,280           | 0.28 %           |
| Total noninterest-bearing deposits   | 72,075                          |                  | 70,648              |                  | 70,230              |                  |
| Other liabilities  | 24,380                          |                  | 26,779              |                  | 23,712              |                  |



Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|   |           |           |           |
|---|-----------|-----------|-----------|
| Liabilities and obligations of consolidated investment management funds | 10,466    | 10,242    | 9,686     |
| Total liabilities   | 304,874   | 300,648   | 282,908   |
| Temporary equity  |           |           |           |
| Redeemable noncontrolling interests                                     | 196       | 189       | 134       |
| Permanent equity  |           |           |           |
| Total BNY Mellon shareholders' equity                                   | 35,826    | 35,817    | 35,133    |
| Noncontrolling interests  | 854       | 801       | 739       |
| Total permanent equity  | 36,680    | 36,618    | 35,872    |
| Total liabilities, temporary equity and permanent equity                | \$341,750 | \$337,455 | \$318,914 |
| Net interest margin (FTE)   | 1.16      | 1.15      | 1.20      |
|   | %         | %         | %         |

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.

12 BNY Mellon

---

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Average balances and interest rates<br><br>(dollar amounts in millions, presented on an FTE basis) | Year-to-date<br>Sept. 30, 2013 |                  | Sept. 30, 2012      |                  |         |   |
|--|--------------------------------|------------------|---------------------|------------------|---------|---|
|  | Average<br>balances            | Average<br>rates | Average<br>balances | Average<br>rates |         |   |
| <b>Assets</b>  |                                |                  |                     |                  |         |   |
| <b>Interest-earning assets:</b>  |                                |                  |                     |                  |         |   |
| Interest-bearing deposits with banks (primarily foreign banks)                                     | \$41,781                       | 0.67             | %                   | \$38,267         | 1.07    | % |
| Interest-bearing deposits held at the Federal Reserve and other central banks                      | 61,627                         | 0.22             |                     | 61,096           | 0.25    |   |
| Federal funds sold and securities purchased under resale agreements                                | 8,078                          | 0.54             |                     | 5,327            | 0.66    |   |
| Margin loans   | 13,973                         | 1.14             |                     | 13,089           | 1.29    |   |
| <b>Non-margin loans:</b>   |                                |                  |                     |                  |         |   |
| Domestic offices   | 21,475                         | 2.39             |                     | 19,534           | 2.54    |   |
| Foreign offices  | 12,042                         | 1.33             |                     | 10,252           | 1.74    |   |
| Total non-margin loans   | 33,517                         | 2.01             |                     | 29,786           | 2.26    |   |
| <b>Securities:</b>   |                                |                  |                     |                  |         |   |
| U.S. government obligations  | 18,405                         | 1.64             |                     | 17,197           | 1.52    |   |
| U.S. government agency obligations   | 45,270                         | 1.89             |                     | 37,630           | 2.18    |   |
| State and political subdivisions – tax-exempt  | 6,364                          | 2.35             |                     | 4,693            | 2.69    |   |
| Other securities   | 33,377                         | 1.96             |                     | 33,397           | 2.62    |   |
| Trading securities   | 6,088                          | 2.51             |                     | 3,332            | 2.55    |   |
| Total securities   | 109,504                        | 1.93             |                     | 96,249           | 2.26    |   |
| Total interest-earning assets  | \$268,480                      | 1.27             | %                   | \$243,814        | 1.48    | % |
| Allowance for loan losses  | (237 )                         |                  |                     | (378 )           |         |   |
| Cash and due from banks  | 5,338                          |                  |                     | 4,320            |         |   |
| Other assets   | 52,439                         |                  |                     | 49,463           |         |   |
| Assets of consolidated investment management funds   | 11,631                         |                  |                     | 11,240           |         |   |
| Total assets   | \$337,651                      |                  |                     | \$308,459        |         |   |
| <b>Liabilities</b>   |                                |                  |                     |                  |         |   |
| <b>Interest-bearing liabilities:</b>   |                                |                  |                     |                  |         |   |
| <b>Interest-bearing deposits:</b>  |                                |                  |                     |                  |         |   |
| Money market rate accounts   | \$5,656                        | 0.24             | %                   | \$7,187          | 0.21    | % |
| Savings  | 912                            | 0.26             |                     | 693              | 0.14    |   |
| Demand deposits  | 2,872                          | 0.08             |                     | 370              | 0.17    |   |
| Time deposits  | 40,790                         | 0.04             |                     | 33,666           | 0.09    |   |
| Foreign offices  | 100,623                        | 0.07             |                     | 89,502           | 0.13    |   |
| Total interest-bearing deposits  | 150,853                        | 0.07             |                     | 131,418          | 0.13    |   |
| Federal funds purchased and securities sold under repurchase agreements                            | 10,197                         | (0.17 )          |                     | 9,977            | (0.02 ) |   |
| Trading liabilities  | 2,637                          | 1.47             |                     | 1,269            | 1.77    |   |
| Other borrowed funds   | 1,195                          | 0.46             |                     | 1,502            | 1.17    |   |
| Commercial paper   | 500                            | 0.06             |                     | 824              | 0.22    |   |
| Payables to customers and broker-dealers   | 8,914                          | 0.09             |                     | 7,865            | 0.10    |   |
| Long-term debt   | 18,969                         | 1.05             |                     | 20,051           | 1.71    |   |
| Total interest-bearing liabilities   | \$193,265                      | 0.18             | %                   | \$172,906        | 0.32    | % |
| Total noninterest-bearing deposits   | 71,026                         |                  |                     | 66,581           |         |   |
| Other liabilities  | 26,179                         |                  |                     | 23,850           |         |   |
| Liabilities and obligations of consolidated investment management funds                            | 10,299                         |                  |                     | 9,971            |         |   |
| Total liabilities  | 300,769                        |                  |                     | 273,308          |         |   |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|  |           |      |           |      |
|--|-----------|------|-----------|------|
| Temporary equity   |           |      |           |      |
| Redeemable noncontrolling interests                      | 187       |      | 94        |      |
| Permanent equity   |           |      |           |      |
| Total BNY Mellon shareholders' equity                    | 35,869    |      | 34,348    |      |
| Noncontrolling interests                                 | 826       |      | 709       |      |
| Total permanent equity                                   | 36,695    |      | 35,057    |      |
| Total liabilities, temporary equity and permanent equity | \$337,651 |      | \$308,459 |      |
| Net interest margin (FTE)                                |           | 1.14 | %         | 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.

BNY Mellon 13

---

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Noninterest expense  |         |         |         |          |      |              |         |         | YTD13 |     |   |
|--|---------|---------|---------|----------|------|--------------|---------|---------|-------|-----|---|
| Noninterest expense  |         |         |         |          |      |              |         |         | vs.   |     |   |
| (dollars in millions)  | 3Q13    | 2Q13    | 3Q12    | 3Q13 vs. |      | Year-to-date |         | vs.     | YTD12 |     |   |
|  |         |         |         | 3Q12     | 2Q13 | 2013         | 2012    |         |       |     |   |
| Staff:   |         |         |         |          |      |              |         |         |       |     |   |
| Compensation   | \$915   | \$891   | \$893   | 2        | %3   | %            | \$2,691 | \$2,620 | 3     | %   |   |
| Incentives   | 339     | 364     | 306     | 11       | (7   | )            | 1,041   | 969     | 7     |     |   |
| Employee benefits  | 262     | 254     | 237     | 11       | 3    |              | 765     | 715     | 7     |     |   |
| Total staff  | 1,516   | 1,509   | 1,436   | 6        | —    |              | 4,497   | 4,304   | 4     |     |   |
| Professional, legal and other purchased services   | 296     | 317     | 292     | 1        | (7   | )            | 908     | 900     | 1     |     |   |
| Net occupancy  | 153     | 159     | 149     | 3        | (4   | )            | 475     | 437     | 9     |     |   |
| Software   | 147     | 157     | 127     | 16       | (6   | )            | 444     | 373     | 19    |     |   |
| Distribution and servicing   | 108     | 111     | 109     | (1       | )    | (3           | )       | 325     | 313   | 4   |   |
| Furniture and equipment  | 79      | 81      | 81      | (2       | )    | (2           | )       | 248     | 249   | —   |   |
| Business development   | 63      | 90      | 60      | 5        | (30  | )            | 221     | 187     | 18    |     |   |
| Sub-custodian  | 71      | 77      | 65      | 9        | (8   | )            | 212     | 205     | 3     |     |   |
| Other  | 249     | 215     | 265     | (6       | )    | 16           | 771     | 739     | 4     |     |   |
| Amortization of intangible assets  | 81      | 93      | 95      | (15      | )    | (13          | )       | 260     | 288   | (10 | ) |
| M&I, litigation and restructuring charges  | 16      | 13      | 26      | N/M      | N/M  |              | 68      | 513     | N/M   |     |   |
| Total noninterest expense - GAAP   | \$2,779 | \$2,822 | \$2,705 | 3        | %(2  | )%           | \$8,429 | \$8,508 | (1    | )%  |   |
| Total staff expense as a percentage of total revenue   | 40      | %38     | %39     | %        |      |              | 39      | %39     | %     |     |   |
| Full-time employees at period end  | 50,800  | 49,800  | 48,700  | 4        | %2   | %            | 50,800  | 48,700  | 4     | %   |   |
| Memo:  |         |         |         |          |      |              |         |         |       |     |   |
| Total noninterest expense excluding amortization of intangible assets and M&I, litigation and restructuring charges - Non-GAAP | \$2,682 | \$2,716 | \$2,584 | 4        | %(1  | )%           | \$8,101 | \$7,707 | 5     | %   |   |
| N/M - Not meaningful.  |         |         |         |          |      |              |         |         |       |     |   |

Total noninterest expense increased \$74 million, or 3%, compared with the third quarter of 2012 and decreased \$43 million, or 2% (unannualized) compared with the second quarter of 2013. Excluding amortization of intangible assets, merger and integration (“M&I”), litigation and restructuring charges, noninterest expense increased 4% year-over-year and decreased 1% (unannualized) sequentially. The year-over-year increase primarily resulted from higher staff expense.

We continue to invest in our Compliance, Risk and control functions in light of increasing regulatory requirements. Accordingly, our expenses are continuing to increase in those areas as a result of the need to hire additional staff and advisors and to enhance our technology platforms.

Staff expense

Given our mix of fee-based businesses, which are staffed with high-quality professionals, staff expense comprised 57% of total noninterest expense in the third quarter of 2013, 56% in both the third quarter of 2012 and second quarter of 2013, excluding

amortization of intangible assets and M&I, litigation and restructuring charges.

Staff expense was \$1.5 billion in the third quarter of 2013, an increase of 6% compared with the third quarter of 2012 and unchanged compared with the second quarter of 2013. Both comparisons were impacted by the annual employee merit increase. The year-over-year increase also reflects higher incentive and employee benefit expenses. The sequential comparison also reflects a decrease in incentives.

#### Non-staff expense

Non-staff expense, excluding amortization of intangible assets and M&I, litigation and restructuring charges, totaled \$1.2 billion in the third quarter of 2013, an increase of 2% compared with the third quarter of 2012 and a decrease of 3% (unannualized) compared with the second quarter of 2013. The year-over-year increase primarily reflects higher software, sub-custodian, professional, legal and other purchased services and net occupancy expenses, partially offset by the cost of generating certain tax credits in the third quarter of 2012. The

sequential decrease primarily reflects lower business development and professional, legal and other purchased services expenses as well as lower expense reimbursements, partially offset by a reduction in the reserve for administrative errors in certain offshore tax-exempt funds recorded in the second quarter of 2013.

The financial services industry has seen a continuing increase in the level of litigation and enforcement 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 nine months of 2013 decreased \$79 million, or 1%, compared with the first nine months of 2012. The decrease primarily reflects lower litigation charges, partially offset by higher staff, software, net occupancy and business development expenses and the impact of the Meriten acquisition.

#### Operational Excellence Initiatives update

| Expense initiatives (pre-tax)<br>(dollar amounts in millions) | Program savings |       |       |       | Original annualized<br>targeted savings by<br>the end of 2013 (a) |
|---|-----------------|-------|-------|-------|---|
|   | FY12            | 1Q13  | 2Q13  | 3Q13  |   |
| Business operations   | \$238           | \$84  | \$93  | \$103 | \$310 - \$320   |
| Technology  | 82              | 27    | 30    | 36    | \$105 - \$110   |
| Corporate services  | 77              | 26    | 27    | 31    | \$85 - \$90   |
| Gross savings (b)   | \$397           | \$137 | \$150 | \$170 | \$500 - \$520   |
| Incremental program expenses to achieve goals (c)             | \$88            | \$16  | \$11  | \$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.

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

During the first nine months of 2013, we accomplished the following Operational Excellence Initiatives:

- Continued global footprint position migrations. Lowered operating costs as we continued job migrations to the new Eastern European Global Delivery Center and our existing Global Delivery Centers.

- Enhanced procurement process to reduce operating expenses.

- Realized savings from business restructuring, management rationalization and vendor management in Investment Services.

- Realized savings from reengineering activities relating to Investment Boutique restructurings and Dreyfus back office operations consolidation.

- Realized savings from continued insourcing of third party contract developers to our Global Delivery Centers as well as other staffing efficiencies in the Technology organization.

- Consolidated offices and reduced real estate by an additional 180,000 square feet, primarily in the New York Metro region.

BNY Mellon 15

---

## Income taxes

Income taxes were a \$2 million benefit in the third quarter of 2013 and included a benefit of \$261 million related to the U.S. Tax Court's partial reconsideration of its original tax decision on Feb. 11, 2013 disallowing certain foreign tax credits. Excluding the impact of the partial reconsideration, the effective tax rate on an operating basis (Non-GAAP) was 26.3% in the third quarter of 2013. The provision for income taxes and effective tax rate were \$225 million and 23.1%, respectively, in the third quarter of 2012 and \$321 million and 26.6%, respectively, in the second quarter of 2013. See "Supplemental information - Explanation of GAAP and Non-GAAP financial measures" beginning on page 52 for additional information.

We expect the effective tax rate to be approximately 26% in the fourth 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 third 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, Depository 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 the fourth quarter, we typically incur higher business development and marketing expenses. 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                |      |      |      |      |      | 3Q13 vs. |      | Year-to-date |      | YTD13 vs. |    |   |
|-------------------------------|------|------|------|------|------|----------|------|--------------|------|-----------|----|---|
|                               | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 3Q12     | 2Q13 | 2013         | 2012 | YTD12     | %  |   |
| S&P 500 Index (a)             | 1441 | 1426 | 1569 | 1606 | 1682 | 17       | %5   | %            | 1682 | 1441      | 17 | % |
| S&P 500 Index – daily average | 1400 | 1419 | 1513 | 1609 | 1674 | 20       | 4    |              | 1600 | 1366      | 17 |   |



Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|   |      |      |      |      |      |      |       |      |      |      |
|---|------|------|------|------|------|------|-------|------|------|------|
| FTSE 100 Index (a)                                      | 5742 | 5898 | 6412 | 6215 | 6462 | 13   | 4     | 6462 | 5742 | 13   |
| FTSE 100 Index – daily average                          | 5742 | 5842 | 6294 | 6438 | 6525 | 14   | 1     | 6422 | 5708 | 13   |
| MSCI World Index (a)                                    | 1312 | 1339 | 1435 | 1434 | 1544 | 18   | 8     | 1544 | 1312 | 18   |
| MSCI World Index – daily average                        | 1273 | 1312 | 1404 | 1463 | 1510 | 19   | 3     | 1460 | 1258 | 16   |
| Barclays Capital Aggregate Bond <sup>SM</sup> Index (a) | 368  | 366  | 356  | 343  | 356  | (3 ) | 4     | 356  | 368  | (3 ) |
| NYSE and NASDAQ share volume (in billions)              | 173  | 174  | 174  | 186  | 166  | (4 ) | (11 ) | 526  | 550  | (4 ) |
| JPMorgan G7 Volatility Index – daily average (b)        | 8.70 | 7.56 | 9.02 | 9.84 | 9.72 | 12   | (1 )  | 9.53 | 9.80 | (3 ) |

(a) Period end.

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

16 BNY Mellon

---

Fee revenue in Investment Management, and to a lesser extent in Investment Services, is impacted by the value of market indices. At Sept. 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 Sept. 30, 2013<br>(dollar amounts in millions) | Investment<br>Management |     | Investment<br>Services |   | Other    |   | Consolidated |     |
|--|--------------------------|-----|------------------------|---|----------|---|--------------|-----|
| Fee and other revenue  | \$920                    | (a) | \$1,947                |   | \$120    |   | \$2,987      | (a) |
| Net interest revenue   | 67                       |     | 619                    |   | 86       |   | 772          |     |
| Total revenue  | 987                      |     | 2,566                  |   | 206      |   | 3,759        |     |
| Provision for credit losses  | —                        |     | —                      |   | 2        |   | 2            |     |
| Noninterest expense  | 732                      |     | 1,812                  |   | 235      |   | 2,779        |     |
| Income (loss) before taxes   | \$255                    | (a) | \$754                  |   | \$(31)   | ) | \$978        | (a) |
| Pre-tax operating margin (b)   | 26                       | %   | 29                     | % | N/M      |   | 26           | %   |
| Average assets   | \$38,690                 |     | \$246,254              |   | \$56,806 |   | \$341,750    |     |
| Excluding amortization of intangible assets:                         |                          |     |                        |   |          |   |              |     |
| Noninterest expense  | \$697                    |     | \$1,766                |   | \$235    |   | \$2,698      |     |
| Income (loss) before taxes   | 290                      | (a) | 800                    |   | (31)     | ) | 1,059        | (a) |
| Pre-tax operating margin (b)   | 29                       | %   | 31                     | % | N/M      |   | 28           | %   |

Total fee and other revenue includes income from consolidated investment management funds of \$32 million, net (a) of noncontrolling interests of \$8 million, for a net impact of \$24 million. Income before taxes includes noncontrolling interests of \$8 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the quarter ended June 30, 2013<br>(dollar amounts in millions) | Investment<br>Management |     | Investment<br>Services |   | Other    |   | Consolidated |     |
|---|--------------------------|-----|------------------------|---|----------|---|--------------|-----|
| Fee and other revenue   | \$922                    | (a) | \$1,971                |   | \$320    |   | \$3,213      | (a) |
| Net interest revenue  | 63                       |     | 633                    |   | 61       |   | 757          |     |
| Total revenue   | 985                      |     | 2,604                  |   | 381      |   | 3,970        |     |
| Provision for credit losses   | —                        |     | —                      |   | (19)     | ) | (19)         | )   |
| Noninterest expense   | 713                      |     | 1,880                  |   | 229      |   | 2,822        |     |
| Income before taxes   | \$272                    | (a) | \$724                  |   | \$171    |   | \$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                    |     | \$1,826                |   | \$229    |   | \$2,729      |     |
| Income before taxes   | 311                      | (a) | 778                    |   | 171      |   | 1,260        | (a) |
| Pre-tax operating margin (b)  | 31                       | %   | 30                     | % | N/M      |   | 32           | %   |

Total fee and other revenue includes income from consolidated investment management funds of \$65 million, net (a) 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.

BNY Mellon 17

---

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| For the quarter ended Sept. 30, 2012<br>(dollar amounts in millions) | Investment<br>Management | Investment<br>Services | Other    | Consolidated |     |
|--|--------------------------|------------------------|----------|--------------|-----|
| Fee and other revenue  | \$869                    | (a) \$1,876            | \$156    | \$2,901      | (a) |
| Net interest revenue   | 51                       | 608                    | 90       | 749          |     |
| Total revenue  | 920                      | 2,484                  | 246      | 3,650        |     |
| Provision for credit losses  | —                        | (4 )                   | (1 )     | (5 )         | )   |
| Noninterest expense  | 692                      | 1,779                  | 234      | 2,705        |     |
| Income before taxes  | \$228                    | (a) \$709              | \$13     | \$950        | (a) |
| Pre-tax operating margin (b)   | 25                       | % 29                   | % N/M    | 26           | %   |
| Average assets   | \$35,285                 | \$224,987              | \$58,642 | \$318,914    |     |
| Excluding amortization of intangible assets:                         |                          |                        |          |              |     |
| Noninterest expense  | \$644                    | \$1,732                | \$234    | \$2,610      |     |
| Income before taxes  | 276                      | (a) 756                | 13       | 1,045        | (a) |
| Pre-tax operating margin (b)   | 30                       | % 30                   | % N/M    | 29           | %   |

Total fee and other revenue includes income from consolidated investment management funds of \$47 million, net (a) of noncontrolling interests of \$25 million, for a net impact of \$22 million. Income before taxes includes noncontrolling interests of \$25 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the nine months ended Sept. 30, 2013<br>(dollar amounts in millions) | Investment<br>Management | Investment<br>Services | Other    | Consolidated |     |
|--|--------------------------|------------------------|----------|--------------|-----|
| Fee and other revenue  | \$2,733                  | (a) \$5,780            | \$565    | \$9,078      | (a) |
| Net interest revenue   | 192                      | 1,905                  | 151      | 2,248        |     |
| Total revenue  | 2,925                    | 7,685                  | 716      | 11,326       |     |
| Provision for credit losses  | —                        | 1                      | (42 )    | (41 )        | )   |
| Noninterest expense  | 2,188                    | 5,535                  | 706      | 8,429        |     |
| Income before taxes  | \$737                    | (a) \$2,149            | \$52     | \$2,938      | (a) |
| Pre-tax operating margin (b)   | 25                       | % 28                   | % N/M    | 26           | %   |
| Average assets   | \$38,461                 | \$243,770              | \$55,420 | \$337,651    |     |
| Excluding amortization of intangible assets:                             |                          |                        |          |              |     |
| Noninterest expense  | \$2,075                  | \$5,388                | \$706    | \$8,169      |     |
| Income before taxes  | 850                      | (a) 2,296              | 52       | 3,198        | (a) |
| Pre-tax operating margin (b)   | 29                       | % 30                   | % N/M    | 28           | %   |

Total fee and other revenue includes income from consolidated investment management funds of \$147 million, net (a) of noncontrolling interests of \$63 million, for a net impact of \$84 million. Income before taxes includes noncontrolling interests of \$63 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the nine months ended Sept. 30, 2012<br>(dollar amounts in millions) | Investment<br>Management | Investment<br>Services | Other   | Consolidated |     |
|--|--------------------------|------------------------|---------|--------------|-----|
| Fee and other revenue  | \$2,576                  | (a) \$5,606            | \$443   | \$8,625      | (a) |
| Net interest revenue   | 158                      | 1,857                  | 233     | 2,248        |     |
| Total revenue  | 2,734                    | 7,463                  | 676     | 10,873       |     |
| Provision for credit losses  | —                        | (2 )                   | (17 )   | (19 )        | )   |
| Noninterest expense  | 2,050                    | 5,755                  | 703     | 8,508        |     |
| Income (loss) before taxes   | \$684                    | (a) \$1,710            | \$(10 ) | \$2,384      | (a) |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|  |          |     |           |     |          |           |     |
|--|----------|-----|-----------|-----|----------|-----------|-----|
| Pre-tax operating margin (b)                 | 25       | %   | 23        | %   | N/M      | 22        | %   |
| Average assets                               | \$35,665 |     | \$216,579 |     | \$56,215 | \$308,459 |     |
| Excluding amortization of intangible assets: |          |     |           |     |          |           |     |
| Noninterest expense                          | \$1,906  |     | \$5,611   |     | \$703    | \$8,220   |     |
| Income (loss) before taxes                   | 828      | (a) | 1,854     | (10 | )        | 2,672     | (a) |
| Pre-tax operating margin (b)                 | 30       | %   | 25        | %   | N/M      | 25        | %   |

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Investment Management business

| (dollar amounts in millions)                                | 3Q12  | 4Q12  | 1Q13  | 2Q13  | 3Q13  | 3Q13 vs. |        | Year-to-date |       | YTD13 vs. |   |
|---|-------|-------|-------|-------|-------|----------|--------|--------------|-------|-----------|---|
|   |       |       |       |       |       | 3Q12     | 2Q13   | 2013         | 2012  | YTD12     |   |
| Revenue:  |       |       |       |       |       |          |        |              |       |           |   |
| Investment management fees:                                 |       |       |       |       |       |          |        |              |       |           |   |
| Mutual funds  | \$283 | \$293 | \$295 | \$295 | \$289 | 2        | %(2 )% | \$879        | \$813 | 8         | % |
| Institutional clients                                       | 334   | 349   | 355   | 360   | 362   | 8        | 1      | 1,077        | 977   | 10        |   |
| Wealth management   | 154   | 157   | 161   | 165   | 164   | 6        | (1 )   | 490          | 464   | 6         |   |
| Investment management fees                                  | 771   | 799   | 811   | 820   | 815   | 6        | (1 )   | 2,446        | 2,254 | 9         |   |
| Performance fees  | 10    | 57    | 15    | 33    | 10    | —        | N/M    | 58           | 80    | (28 )     |   |
| Distribution and servicing                                  | 47    | 50    | 46    | 44    | 41    | (13 )    | (7 )   | 131          | 137   | (4 )      |   |
| Other (a)   | 41    | 25    | 19    | 25    | 54    | N/M      | N/M    | 98           | 105   | (7 )      |   |
| Total fee and other revenue (a)                             | 869   | 931   | 891   | 922   | 920   | 6        | —      | 2,733        | 2,576 | 6         |   |
| Net interest revenue  | 51    | 56    | 62    | 63    | 67    | 31       | 6      | 192          | 158   | 22        |   |
| Total revenue   | 920   | 987   | 953   | 985   | 987   | 7        | —      | 2,925        | 2,734 | 7         |   |
| Noninterest expense (ex. amortization of intangible assets) | 644   | 713   | 704   | 674   | 697   | 8        | 3      | 2,075        | 1,906 | 9         |   |
| Income before taxes (ex. amortization of intangible assets) | 276   | 274   | 249   | 311   | 290   | 5        | (7 )   | 850          | 828   | 3         |   |
| Amortization of intangible assets                           | 48    | 48    | 39    | 39    | 35    | (27 )    | (10 )  | 113          | 144   | (22 )     |   |
| Income before taxes   | \$228 | \$226 | \$210 | \$272 | \$255 | 12       | %(6 )% | \$737        | \$684 | 8         | % |
| Pre-tax operating margin                                    | 25    | %23   | %22   | %28   | %26   | %        |        | 25           | %25   | %         |   |
|   | 34    | %31   | %29   | %36   | %33   | %        |        | 33           | %34   | %         |   |

Pre-tax  
operating  
margin (ex.  
amortization  
of intangible  
assets and net  
of distribution  
and servicing  
expense) (b)  
Wealth  
management:

|                     |          |          |          |          |          |    |    |   |          |          |    |   |
|---------------------|----------|----------|----------|----------|----------|----|----|---|----------|----------|----|---|
| Average<br>loans    | \$8,122  | \$8,478  | \$8,972  | \$9,253  | \$9,453  | 16 | %2 | % | \$9,228  | \$7,773  | 19 | % |
| Average<br>deposits | \$10,882 | \$12,332 | \$13,646 | \$13,306 | \$13,898 | 28 | %4 | % | \$13,618 | \$10,968 | 24 | % |

Total fee and other revenue includes the impact of the consolidated investment management funds. See

(a) “Supplemental information - Explanation of GAAP and 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 \$107 million, \$106 million, \$104 million, \$110 million, \$107 million, \$321 million and \$309 million for each of the periods presented above, respectively.

N/M - Not meaningful.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| AUM trends (a)<br>(dollar amounts in billions) | 3Q12    | 4Q12    | 1Q13    | 2Q13    | 3Q13    | 3Q13 vs. |       |    |
|--|---------|---------|---------|---------|---------|----------|-------|----|
|  |         |         |         |         |         | 3Q12     | 2Q13  |    |
| AUM at period end, by product type:            |         |         |         |         |         |          |       |    |
| Equity securities                              | \$446   | \$451   | \$487   | \$493   | \$530   | 19       | % 8   | %  |
| Fixed income securities (b)                    | 506     | 532     | 559     | 558     | 602     | 19       | % 8   | %  |
| Money market                                   | 307     | 302     | 278     | 277     | 292     | (5)      | )% 5  | %  |
| Alternative investments and overlay            | 100     | 101     | 105     | 104     | 108     | 8        | % 4   | %  |
| Total AUM                                      | \$1,359 | \$1,386 | \$1,429 | \$1,432 | \$1,532 | 13       | % 7   | %  |
| AUM at period end, by client type:             |         |         |         |         |         |          |       |    |
| Institutional                                  | \$883   | \$894   | \$939   | \$969   | \$1,041 | 18       | % 7   | %  |
| Mutual funds                                   | 398     | 411     | 405     | 378     | 407     | 2        | % 8   | %  |
| Private client                                 | 78      | 81      | 85      | 85      | 84      | 8        | % (1) | )% |
| Total AUM                                      | \$1,359 | \$1,386 | \$1,429 | \$1,432 | \$1,532 | 13       | % 7   | %  |
| Changes in AUM:                                |         |         |         |         |         |          |       |    |
| Beginning balance of AUM                       | \$1,299 | \$1,359 | \$1,386 | \$1,429 | \$1,432 |          |       |    |
| Net inflows (outflows):                        |         |         |         |         |         |          |       |    |
| Long-term                                      | 9       | 14      | 40      | 21      | 32      |          |       |    |
| Money market                                   | 9       | (6)     | (13)    | (1)     | 13      |          |       |    |
| Total net inflows (outflows)                   | 18      | 8       | 27      | 20      | 45      |          |       |    |
| Net market/currency impact                     | 42      | 19      | 16      | (17)    | 55      |          |       |    |
| Ending balance of AUM                          | \$1,359 | \$1,386 | \$1,429 | \$1,432 | \$1,532 | 13       | % 7   | %  |

(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 \$1.53 trillion at Sept. 30, 2013 compared with \$1.36 trillion at Sept. 30, 2012 and \$1.43 trillion at June 30, 2013. Both increases primarily resulted from net new business and higher market values. Net long-term inflows were \$32 billion in the third quarter of 2013 and benefited from liability driven investments, alternative investments and active equity and index funds. Net short-term inflows were \$13 billion in the third quarter of 2013.

Revenue generated in the Investment Management business included 46% from non-U.S. sources in the third quarter of 2013 compared with 44% in the third quarter of 2012 and 47% in the second quarter of 2013.

In the third quarter of 2013, Investment Management had pre-tax income of \$255 million compared with \$228 million in the third quarter of 2012 and \$272 million in the second quarter of 2013. Excluding amortization of intangible assets, pre-tax income was \$290 million in the third quarter of 2013 compared with \$276 million in the third quarter of 2012 and \$311 million in the second quarter of 2013. The year-over-year increase primarily reflects higher equity



market values, the pre-tax gain on the sale of Newton's private client business and net new business, partially offset by higher incentive expense driven by improved results, higher money market fee waivers and the average impact of the stronger U.S. dollar. The sequential decrease primarily reflects a reduction in the reserve for administrative errors in certain offshore tax-exempt funds recorded in the second quarter of 2013 and seasonally lower performance fees, partially offset by the pre-tax gain on the sale of Newton's private client business, higher equity market values and net new business.

Investment management fees in the Investment Management business were \$815 million in the third quarter of 2013 compared with \$771 million in the third quarter of 2012 and \$820 million in the second quarter of 2013. The year-over-year increase was primarily driven by higher equity market values, net new business and the impact of the Meriten acquisition, partially offset by higher money market fee waivers and the average impact of the stronger

20 BNY Mellon

---

U.S. dollar. The sequential decrease was primarily driven by higher money market fee waivers, partially offset by higher equity market values and net new business.

Performance fees were \$10 million in the third quarter of 2013 compared with \$10 million in the third quarter of 2012 and \$33 million in the second quarter of 2013. The sequential decrease was due to seasonality.

In the third quarter of 2013, 35% 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 \$289 million in the third quarter of 2013 compared with \$283 million in the third quarter of 2012 and \$295 million in the second quarter of 2013. The increase compared with the third quarter of 2012 primarily resulted from higher equity market values and net new business. The decrease compared with the second quarter of 2013 primarily resulted from higher money market fee waivers.

Other fee revenue was \$54 million in the third quarter of 2013 compared with \$41 million in the third quarter of 2012 and \$25 million in the second quarter of 2012. Both increases resulted from the pre-tax gain on the sale of Newton's private client business.

Net interest revenue was \$67 million in the third quarter of 2013 compared with \$51 million in the third quarter of 2012 and \$63 million in the second quarter of 2013. Both the year-over-year and sequential increases resulted from higher average loans and deposits. Average loans increased 16% year-over-year and 2% sequentially, while average deposits increased 28% year-over-year and 4% sequentially.

Noninterest expense excluding amortization of intangible assets was \$697 million in the third quarter of 2013 compared with \$644 million in the third quarter of 2012 and \$674 million in the second quarter of 2013. Both increases reflect the annual employee merit increase. The year-over-year increase also reflects higher incentive expense driven by improved results, and the impact of the Meriten acquisition. The sequential increase reflects a reduction in the reserve for administrative errors in certain offshore tax-exempt funds recorded in the second quarter of 2013, partially offset by lower incentive and distribution and servicing expenses.

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

Income before taxes totaled \$737 million in the first nine months of 2013 compared with \$684 million in the first nine months of 2012. Income before taxes (excluding intangible amortization) was \$850 million in the first nine months of 2013 compared with \$828 million in the first nine months of 2012. Fee and other revenue increased \$157 million compared to the first nine months of 2012, primarily due to higher equity market values, net new business and the impact of the Meriten acquisition, partially offset by higher money market fee waivers, lower performance fees, lower seed capital gains, and the average impact of the stronger U.S. dollar. Net interest revenue increased \$34 million compared to the first nine months of 2012 primarily as a result of higher average loan and deposit levels. Noninterest expense (excluding intangible amortization) increased \$169 million compared to the first nine months of 2012, primarily due to higher incentives driven by improved results, the impact of the Meriten acquisition, and the annual employee merit increase.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Investment Services business

| (dollar amounts in millions, unless otherwise noted)        |       |       |       |       |       | 3Q13 vs. |       | Year-to-date |         | YTD1 vs. |
|---|-------|-------|-------|-------|-------|----------|-------|--------------|---------|----------|
|   | 3Q12  | 4Q12  | 1Q13  | 2Q13  | 3Q13  | 3Q12     | 2Q13  | 2013         | 2012    | YTD1     |
| Revenue:  |       |       |       |       |       |          |       |              |         |          |
| Investment services fees:                                   |       |       |       |       |       |          |       |              |         |          |
| Asset servicing   | \$913 | \$916 | \$943 | \$961 | \$939 | 3        | (2 )  | \$2,843      | \$2,747 | 3        |
| Issuer services   | 310   | 213   | 236   | 294   | 321   | 4        | 9     | 851          | 836     | 2        |
| Clearing services   | 287   | 294   | 304   | 321   | 315   | 10       | (2 )  | 940          | 899     | 5        |
| Treasury services   | 131   | 136   | 137   | 135   | 135   | 3        | —     | 407          | 391     | 4        |
| Total investment services fees                              | 1,641 | 1,559 | 1,620 | 1,711 | 1,710 | 4        | —     | 5,041        | 4,873   | 3        |
| Foreign exchange and other trading revenue                  | 158   | 128   | 172   | 194   | 173   | 9        | (11 ) | 539          | 513     | 5        |
| Other (a)   | 77    | 75    | 70    | 66    | 64    | (17 )    | (3 )  | 200          | 220     | (9       |
| Total fee and other revenue (a)                             | 1,876 | 1,762 | 1,862 | 1,971 | 1,947 | 4        | (1 )  | 5,780        | 5,606   | 3        |
| Net interest revenue  | 608   | 583   | 653   | 633   | 619   | 2        | (2 )  | 1,905        | 1,857   | 3        |
| Total revenue   | 2,484 | 2,345 | 2,515 | 2,604 | 2,566 | 3        | (1 )  | 7,685        | 7,463   | 3        |
| Provision for credit losses                                 | (4 )  | —     | 1     | —     | —     | N/M      | N/M   | 1            | (2 )    | N/M      |
| Noninterest expense (ex. amortization of intangible assets) | 1,732 | 1,769 | 1,796 | 1,826 | 1,766 | 2        | (3 )  | 5,388        | 5,611   | (4       |
| Income before taxes (ex. amortization of intangible assets) | 756   | 576   | 718   | 778   | 800   | 6        | 3     | 2,296        | 1,854   | 24       |
| Amortization of intangible assets                           | 47    | 48    | 47    | 54    | 46    | (2 )     | (15 ) | 147          | 144     | 2        |
| Income before taxes   | \$709 | \$528 | \$671 | \$724 | \$754 | 6        | %4    | % \$2,149    | \$1,710 | 26       |
|   | 29    | %23   | %27   | %28   | %29   | %        |       | 28           | %23     | %        |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|   |           |           |           |           |           |      |       |    |           |           |      |
|---|-----------|-----------|-----------|-----------|-----------|------|-------|----|-----------|-----------|------|
| Pre-tax operating margin  |           |           |           |           |           |      |       |    |           |           |      |
| Pre-tax operating margin (ex. amortization of intangible assets)    | 30        | %25       | %29       | %30       | %31       | %    |       |    | 30        | %25       | %    |
| Investment services fees as a percentage of noninterest expense (b) | 96        | %90       | %92       | %94       | %97       | %    |       |    | 94        | %94       | %    |
| Securities lending revenue  | \$37      | \$31      | \$31      | \$39      | \$26      | (30) | )(33) | )% | \$96      | \$124     | (23) |
| Metrics:  |           |           |           |           |           |      |       |    |           |           |      |
| Average loans   | \$24,917  | \$24,868  | \$26,697  | \$27,814  | \$27,865  | 12   | %—    | %  | \$27,463  | \$25,716  | 7    |
| Average deposits  | \$188,743 | \$204,164 | \$200,221 | \$204,499 | \$206,068 | 9    | %1    | %  | \$203,618 | \$179,154 | 14   |
| AUC/A at period end (in trillions) (c)                              | \$26.4    | \$26.3    | \$26.3    | \$26.2    | \$27.4    | 4    | %5    | %  |           |           |      |
| Market value of securities on loan at period end (in billions) (d)  | \$251     | \$237     | \$244     | \$255     | \$255     | 2    | %—    | %  |           |           |      |
| Asset servicing:  |           |           |           |           |           |      |       |    |           |           |      |
| Estimated new business wins (AUC/A) (in billions)                   | \$522     | \$190     | \$205     | \$201     | \$110     |      |       |    |           |           |      |
| Depository Receipts:  |           |           |           |           |           |      |       |    |           |           |      |
| Number of sponsored programs  | 1,393     | 1,379     | 1,359     | 1,349     | 1,350     | (3)  | )(—)  | )% |           |           |      |
| Clearing services:  |           |           |           |           |           |      |       |    |           |           |      |
| Global DARTS  | 168       | 181       | 213       | 217       | 212       | 26   | %(2)  | )% |           |           |      |

|   |            |            |            |            |            |    |     |   |
|---|------------|------------|------------|------------|------------|----|-----|---|
| volume<br>(in<br>thousands) (e)   |            |            |            |            |            |    |     |   |
| Average active<br>clearing<br>accounts<br>(U.S. platform)<br>(in thousands) | 5,447      | 5,489      | 5,552      | 5,591      | 5,622      | 3  | % 1 | % |
| Average<br>long-term<br>mutual fund<br>assets (U.S.<br>platform)            | \$ 323,289 | \$ 334,883 | \$ 357,647 | \$ 371,196 | \$ 377,131 | 17 | % 2 | % |
| Average<br>investor<br>margin loans<br>(U.S. platform)                      | \$ 7,922   | \$ 7,987   | \$ 8,212   | \$ 8,235   | \$ 8,845   | 12 | % 7 | % |

## Broker-Dealer:

|  |          |          |          |          |          |    |    |    |    |
|--|----------|----------|----------|----------|----------|----|----|----|----|
| Average<br>tri-party repo<br>balances<br>(in billions) | \$ 2,005 | \$ 2,113 | \$ 2,070 | \$ 2,037 | \$ 1,952 | (3 | )% | (4 | )% |
|--|----------|----------|----------|----------|----------|----|----|----|----|

(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.

Includes the AUC/A of CIBC Mellon Global Securities Services Company ("CIBC Mellon"), a joint venture with the

(c) Canadian Imperial Bank of Commerce, of \$1.2 trillion at Sept. 30, 2012, \$1.1 trillion at Dec. 31, 2012, \$1.2 trillion at March 31, 2013, \$1.1 trillion at June 30, 2013 and \$1.2 trillion at Sept. 30, 2013.

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

(e) Reflects revisions of prior periods which were not material. Represents DARTs occurring in our Clearing Services business only.

## 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 \$27.4 trillion of assets under custody and/or administration at Sept. 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 trillion globally. We currently service approximately \$1.3 trillion of the \$1.6 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 83% 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

BNY Mellon 23

---

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 are available at [http://www.newyorkfed.org/banking/tpr\\_infr\\_reform.html](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 1,350 sponsored American and global depositary receipt programs at Sept. 30, 2013, acting in partnership with leading companies from 64 countries - an estimated 61% 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; and 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 Sept. 30, 2013 were \$27.4 trillion, an increase of 4% from \$26.4 trillion at Sept. 30, 2012 and 5% from \$26.2 trillion at June 30, 2013. The year-over-year increase was primarily driven by higher market values and net new business. The sequential increase primarily reflects higher market values and the positive impact of foreign currency rates. AUC/A were comprised of 35% equity securities and 65% fixed income securities at Sept. 30, 2013 and 34% equity securities and 66% fixed income securities at June 30, 2013.

Income before taxes was \$754 million in the third quarter of 2013 compared with \$709 million in the third quarter of 2012 and \$724 million in the second quarter of 2013. Income before taxes, excluding amortization of intangible assets, was \$800 million in the third quarter of 2013 compared with \$756 million in the third quarter of 2012 and \$778 million in the second quarter of 2013. The increase compared with the third quarter of 2012 primarily reflects



increased core asset servicing and clearing services fees and higher Depository Receipts revenue. The increase sequentially was driven by seasonably higher Depository Receipts revenue and a decrease in noninterest expense.

Revenue generated in the Investment Services business included 36% from non-U.S. sources in the third quarter of 2013 compared with 37% in the third quarter of 2012 and 36% in the second quarter of 2013.

Investment services fees increased \$69 million, or 4%, in the third quarter of 2013 compared with the third quarter of 2012 and were flat compared with the second quarter of 2013, reflecting the following factors:

Asset servicing fees (global custody, broker-dealer services and global collateral services) were \$939 million in the third quarter of 2013 compared with \$913 million in the third quarter of 2012 and \$961 million in the second quarter of 2013. The year-over-year increase primarily reflects higher core asset servicing fees driven by higher market values, organic growth and net new business, partially offset by lower securities lending revenue which resulted from narrower spreads. The sequential decrease primarily resulted from a seasonal decrease in securities lending revenue, lower activity and lower expense reimbursements.

Issuer services fees (Corporate Trust and Depositary Receipts) were \$321 million in the third quarter of 2013, compared with \$310 million in the third quarter of 2012 and \$294 million in the second quarter of 2013. The year-over-year increase primarily resulted from higher Depositary Receipts revenue, partially offset by lower money market mutual fund balances and higher money market fee waivers in Corporate Trust. The sequential increase primarily resulted from seasonally higher Depositary Receipts revenue, partially offset by lower expense reimbursements in Corporate Trust.

Clearing services fees were \$315 million in the third quarter of 2013 compared with \$287 million in the third quarter of 2012 and \$321 million in the second quarter of 2013. The year-over-year increase was driven by higher mutual fund and asset-based fees and volumes, partially offset by higher money market fee waivers. The sequential decrease was primarily driven by lower clearance revenue reflecting a seasonal decrease in DARTs, and higher money market fee waivers.

Treasury services fees were \$135 million in the third quarter of 2013 compared with \$131 million in the third quarter of 2012 and \$135 million in the second quarter of 2013. The year-over-year increase primarily reflects higher cash management fees.

Foreign exchange and other trading revenue totaled \$173 million in the third quarter of 2013, compared with \$158 million in the third quarter of 2012 and \$194 million in the second quarter of 2013. The year-over-year increase was primarily driven by higher volumes and volatility. The sequential decrease primarily reflects lower volatility while volumes increased slightly.

Net interest revenue was \$619 million in the third quarter of 2013 compared with \$608 million in the third quarter of 2012 and \$633 million in the second quarter of 2013. The year-over-year increase primarily reflects higher average loans and deposits. The sequential decrease primarily reflects lower internal crediting rates on deposits in the third quarter of 2013.

Noninterest expense, excluding amortization of intangible assets, was \$1.8 billion in the third quarter of 2013, compared with \$1.7 billion in the third quarter of 2012 and \$1.8 billion in the second quarter of 2013. The year-over-year increase primarily resulted from higher software, sub-custodian and litigation expenses and impact of the annual employee merit increase. The sequential decrease was primarily driven by lower incentive, legal and sub-custodian expenses and lower expense reimbursements, partially offset by the annual employee merit increase.

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

Income before taxes totaled \$2.1 billion in the first nine months of 2013 compared with \$1.7 billion in the first nine months of 2012. Excluding intangible amortization, income before taxes increased \$442 million. Fee and other revenue increased \$174 million reflecting increased core asset servicing fees driven by organic growth and higher market values, higher mutual fund and asset-based fees and clearance revenue reflecting an increase in DARTs, higher foreign exchange and other trading revenue and higher Depositary Receipts revenue, partially offset by higher money market fee waivers and lower securities lending revenue. The \$48 million increase in net interest revenue primarily reflects higher average deposits and loans. Noninterest expense (excluding intangible amortization) decreased \$223

million primarily due to lower litigation expense, partially offset by higher staff and volume-related expenses.

BNY Mellon 25

---

## Other segment

| (dollars in millions)  | 3Q12    | 4Q12     | 1Q13     | 2Q13     | 3Q13     | Year-to-date |         |
|--|---------|----------|----------|----------|----------|--------------|---------|
|  |         |          |          |          |          | 2013         | 2012    |
| Revenue:   |         |          |          |          |          |              |         |
| Fee and other revenue  | \$156   | \$188    | \$125    | \$320    | \$120    | \$565        | \$443   |
| Net interest revenue   | 90      | 86       | 4        | 61       | 86       | 151          | 233     |
| Total revenue  | 246     | 274      | 129      | 381      | 206      | 716          | 676     |
| Provision for credit losses                                    | (1)     | (61)     | (25)     | (19)     | 2        | (42)         | (17)    |
| Noninterest expense (ex. M&I and restructuring charges)        | 221     | 220      | 237      | 226      | 221      | 684          | 659     |
| Income (loss) before taxes (ex. M&I and restructuring charges) | 26      | 115      | (83)     | 174      | (17)     | 74           | 34      |
| M&I and restructuring charges                                  | 13      | 27       | 5        | 3        | 14       | 22           | 44      |
| Income (loss) before taxes                                     | \$13    | \$88     | \$(88)   | \$171    | \$(31)   | \$52         | \$(10)  |
| Average loans and leases                                       | \$9,389 | \$10,267 | \$10,610 | \$10,846 | \$10,938 | \$10,799     | \$9,386 |

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 a pre-tax loss of \$31 million in the third quarter of 2013 compared with pre-tax gains of \$13 million in the third quarter of 2012 and \$171 million in the second quarter of 2013.

Total fee and other revenue decreased \$36 million compared with the third quarter of 2012 and \$200 million compared with the second quarter of 2013. The sequential decrease primarily resulted from a gain related to an equity investment that was recorded in the second quarter of 2013. Both decreases reflect lower fixed income trading revenue in the third quarter of 2013.

Net interest revenue decreased \$4 million compared with the third quarter of 2012 and increased \$25 million compared with the second quarter of 2013. The sequential increase reflects lower internal crediting rates to the businesses for deposits in the third quarter of 2013.

The provision for credit losses was \$2 million in the third quarter of 2013 primarily driven by growth in our total exposure.

Noninterest expense (excluding M&I and restructuring charges) was unchanged compared with the third quarter of 2012 and decreased \$5 million compared with the second quarter of 2013. On a sequential basis, lower business development and professional, legal and other purchased services

expenses were primarily offset by higher staff expenses.

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

Income before taxes totaled \$52 million in the first nine months of 2013 compared with a pre-tax loss of \$10 million in the first nine months of 2012. Total revenue increased \$40 million primarily reflecting the gain related to our ConvergEx equity investment, partially offset by lower net interest revenue and lower fixed income trading revenue.

The provision for credit losses was a credit of \$42 million in the first nine months of 2013 compared with a credit of \$17 million in the first nine months of 2012. The decrease in the provision was primarily driven by the continued improvement in the credit quality of the loan portfolio. Noninterest expenses (excluding M&I and restructuring charges) increased \$25 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 Sept. 30, 2013, total assets were \$372 billion compared with \$359 billion at Dec. 31, 2012. Total assets averaged \$342 billion in the third quarter of 2013 compared with \$319 billion in the third quarter of 2012 and \$337 billion in the second quarter of 2013. Fluctuations in the average total assets were primarily driven by the level of client deposits. Deposits totaled \$256 billion at Sept. 30, 2013, and \$246 billion at Dec. 31, 2012. Total deposits averaged \$226 billion in the third quarter of 2013, \$208 billion in the third quarter of 2012 and \$222 billion in the second quarter of 2013. At Sept. 30, 2013, total interest-bearing deposits were 56% of total interest-earning assets compared with 52% at Dec. 31, 2012.

At Sept. 30, 2013, we had \$51 billion of liquid funds and \$102 billion of cash (including \$96 billion of overnight deposits with the Federal Reserve and other central banks) for a total of \$153 billion of available funds. This compares with available funds of \$145 billion at Dec. 31, 2012. The increase in available funds resulted from an increase in client deposits. Our percentage of available funds to total assets was 41% at Sept. 30, 2013 compared with 40% at Dec. 31, 2012. Of the \$51 billion in liquid funds held at Sept. 30, 2013, \$41 billion was placed in interest-bearing deposits with large, highly-rated global financial institutions with a weighted-average life to maturity of approximately 66 days. Of the \$41 billion, \$7 billion was placed with banks in the Eurozone.

Investment securities were \$97 billion, or 26% of total assets at Sept. 30, 2013, compared with \$101 billion, or 28% of total assets at Dec. 31, 2012. The decrease primarily reflects a lower level of investments in U.S. Treasury securities and a

decrease in the unrealized gain on our investment securities, partially offset by a larger investment in agency RMBS.

Trading assets were \$12 billion at Sept. 30, 2013 compared with \$9 billion at Dec. 31, 2012. The increase in trading assets resulted from a higher level of securities inventory, primarily U.S. Treasury securities, Agency RMBS and U.S. equity securities, as we expand our broker-dealer business.

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

Long-term debt totaled \$18.9 billion at Sept. 30, 2013 and 18.5 billion at Dec. 31, 2012. The Parent issued \$2.7 billion of senior debt in the first nine months of 2013, which was partially offset by \$1.5 billion of maturities, a decrease in the fair value of hedged long-term debt and \$300 million of repayments of trust preferred securities.

Total The Bank of New York Mellon Corporation’s shareholders’ equity was \$37.0 billion at Sept. 30, 2013 and \$36.4 billion at Dec. 31, 2012. The increase primarily reflects earnings retention and the issuance of noncumulative perpetual preferred stock in the second quarter of 2013, partially offset by a decline in the value of the investment securities portfolio and share repurchases.

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 Sept. 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

BNY Mellon 27

---

from this presentation. The liabilities of consolidated investment management funds represent the interest of the noteholders of the funds and are solely dependent on the value of the assets. Any loss in the value of assets of consolidated investment management funds would be incurred by the fund's noteholders.

At Sept. 30, 2013, BNY Mellon had exposure of less than \$1 million in Portugal and in Greece. 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 Sept. 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 Sept. 30, 2013

| (in millions)  | Ireland | Italy | Spain | Total   |
|--|---------|-------|-------|---------|
| On-balance sheet exposure  |         |       |       |         |
| Gross:   |         |       |       |         |
| Interest-bearing deposits with banks (a)                           | \$105   | \$456 | \$203 | \$764   |
| Investment securities (primarily European Floating Rate Notes) (b) | 167     | 112   | —     | 279     |
| Loans and leases (c)   | 781     | 8     | 6     | 795     |
| Trading assets (d)   | 69      | 23    | 9     | 101     |
| Total gross on-balance sheet exposure                              | 1,122   | 599   | 218   | 1,939   |
| Less:  |         |       |       |         |
| Collateral   | 87      | 23    | 6     | 116     |
| Guarantees   | —       | 2     | 1     | 3       |
| Total collateral and guarantees                                    | 87      | 25    | 7     | 119     |
| Total net on-balance sheet exposure                                | \$1,035 | \$574 | \$211 | \$1,820 |
| Off-balance sheet exposure   |         |       |       |         |
| Gross:   |         |       |       |         |
| Lending-related commitments (e)                                    | \$111   | \$—   | \$—   | \$111   |
| Letters of credit (f)  | 74      | 4     | 14    | 92      |
| 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                     | \$1,307 | \$603 | \$232 | \$2,142 |
| Less: Total collateral and guarantees                              | 187     | 25    | 21    | 233     |
| Total net on- and off-balance sheet exposure                       | \$1,120 | \$578 | \$211 | \$1,909 |

Interest-bearing deposits with banks represent a \$104 million placement with an Irish subsidiary of a UK holding company, \$201 million of placements with financial institutions in Italy, \$200 million of placements with a financial institution in Spain and \$259 million of nostro accounts related to our custody activities located in Italy, Spain and Ireland.

Represents \$256 million, fair value, of residential mortgage-backed securities located in Ireland and Italy, of which 44% were investment grade, and \$23 million, fair value, of investment grade asset-backed collateralized loan obligations ("CLOs") located in Ireland.

(c)



Loans and leases include \$701 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a \$69 million commercial lease to a company located in Ireland, which was fully collateralized by U.S. Treasuries, \$11 million of loans to financial institutions located in Ireland, which were collateralized by \$10 million of marketable securities, \$6 million of overdrafts to financial institutions located in Italy, \$5 million of overdrafts 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.

Trading assets represent over-the-counter mark-to-market on foreign exchange and interest rate receivables, net of master netting agreements. Trading assets include \$69 million of receivables primarily due from Irish-domiciled (d) investment funds and \$32 million of receivables due from financial institutions in Italy and Spain. Cash collateral on the trading assets totaled \$8 million in Ireland, \$23 million in Italy and \$4 million in Spain. Trading assets located in Spain are also collateralized by \$2 million of U.S. Treasuries.

(e) Lending-related commitments include \$101 million to an insurance company, collateralized by \$25 million of marketable securities, and \$10 million to an oil and gas company, fully collateralized by receivables.

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 (f) 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.

BNY Mellon 29

---

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<br>(dollars in millions) | June 30, 2013<br>Fair value | 3Q13 change in unrealized gain/(loss) | Sept. 30, 2013 |              | Fair value | Fair value as a % of amortized cost (a) | Net unrealized gain/(loss) | Ratings |       |               |               |           |
|--|-----------------------------|---------------------------------------|----------------|--------------|------------|---|----------------------------|---------|-------|---------------|---------------|-----------|
|  |                             |                                       | Amortized cost | Fair value   |            |   |                            | AAA/AA- | A+/A- | BBB+ and BBB- | BB+ and lower | Not rated |
| Agency RMBS  | \$45,464                    | \$ (14 )                              | \$41,828       | \$41,663     | 100        | % \$ (165 )                             | 100 %                      | — %     | — %   | — %           | — %           |           |
| U.S. Treasury securities                                 | 18,411                      | (30 )                                 | 14,054         | 14,267       | 102        | 213                                     | 100                        | —       | —     | —             | —             |           |
| Sovereign debt/sovereign guaranteed (b)                  | 11,032                      | —                                     | 11,149         | 11,210       | 101        | 61                                      | 100                        | —       | —     | —             | —             |           |
| Non-agency RMBS (c)                                      | 2,880                       | (5 )                                  | 2,214          | 2,769        | 77         | 555                                     | —                          | 1       | 2     | 93            | 4             |           |
| Non-agency RMBS  | 1,469                       | 8                                     | 1,400          | 1,395        | 91         | (5 )                                    | 1                          | 12      | 23    | 64            | —             |           |
| European floating rate notes (d)                         | 3,231                       | 22                                    | 3,185          | 3,120        | 97         | (65 )                                   | 62                         | 31      | 1     | 6             | —             |           |
| Commercial MBS   | 3,677                       | (9 )                                  | 3,665          | 3,687        | 101        | 22                                      | 91                         | 8       | 1     | —             | —             |           |
| State and political subdivisions                         | 6,482                       | 24                                    | 6,791          | 6,775        | 100        | (16 )                                   | 80                         | 17      | 1     | 1             | 1             |           |
| Foreign covered bonds (e)                                | 3,211                       | 60                                    | 2,779          | 2,855        | 103        | 76                                      | 100                        | —       | —     | —             | —             |           |
| Corporate bonds  | 1,527                       | 5                                     | 1,484          | 1,504        | 101        | 20                                      | 20                         | 70      | 10    | —             | —             |           |
| CLO  | 1,373                       | (2 )                                  | 1,442          | 1,450        | 101        | 8                                       | 100                        | —       | —     | —             | —             |           |
| U.S. Government agency debt                              | 1,548                       | 1                                     | 1,486          | 1,490        | 100        | 4                                       | 100                        | —       | —     | —             | —             |           |
| Consumer ABS   | 2,012                       | 5                                     | 2,494          | 2,490        | 100        | (4 )                                    | 93                         | 7       | —     | —             | —             |           |
| Other (f)  | 3,167                       | 2                                     | 3,174          | 3,193        | 101        | 19                                      | 27                         | 66      | —     | —             | 7             |           |
| Total investment securities                              | \$105,484 (g)               | \$ 67                                 | \$97,145       | \$97,868 (g) | 101        | % \$ 723                                | 89 %                       | 5 %     | 1 %   | 4 %           | 1 %           |           |

(a) Amortized cost before impairments.

(b) Primarily comprised of exposure to UK, Germany, Netherlands and France.

These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these (c) 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 Netherlands.

(f) Includes commercial paper of \$2.1 billion and \$2.1 billion, fair value, and money market funds of \$918 million and \$941 million, fair value, at June 30, 2013 and Sept. 30, 2013, respectively.

(g)

Includes net unrealized gains on derivatives hedging securities available-for-sale of \$318 million at June 30, 2013 and \$469 million at Sept. 30, 2013.

The fair value of our investment securities portfolio was \$97.9 billion at Sept. 30, 2013 compared with \$100.7 billion at Dec. 31, 2012. The decrease primarily reflects a lower level of investments in U.S. Treasury securities and a decrease in the unrealized gain of our investment securities, partially offset by a larger investment in Agency RMBS. In the third quarter of 2013, we received \$217 million of paydowns of sub-investment grade securities.

At Sept. 30, 2013, the total investment securities portfolio had a net unrealized pre-tax gain of \$723 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 \$456 million at Sept. 30, 2013, compared with \$1.3 billion at Dec. 31, 2012.

At Sept. 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)<br>(dollars in millions)   | 3Q12    | 4Q12    | 1Q13    | 2Q13    | 3Q13    |
|--|---------|---------|---------|---------|---------|
| Amortizable net purchase premium relating to investment securities:                      |         |         |         |         |         |
| Balance at period end  | \$2,616 | \$2,476 | \$2,685 | \$2,720 | \$2,519 |
| Estimated average life remaining at period end (in years)                                | 4.0     | 4.2     | 4.6     | 5.1     | 5.2     |
| Amortization   | \$163   | \$169   | \$164   | \$172   | \$147   |
| Accrutable discount related to the restructuring of the investment securities portfolio: |         |         |         |         |         |
| Balance at period end  | \$943   | \$871   | \$789   | \$743   | \$675   |
| Estimated average life remaining at period end (in years)                                | 5.4     | 5.3     | 5.6     | 6.0     | 6.1     |
| Accretion  | \$66    | \$60    | \$57    | \$54    | \$55    |

(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 decrease in the net premium amortization in the third quarter of 2013 primarily relates to a decrease in projected prepayments due to an increase in market interest rates.

In the third quarter of 2013 securities gains of \$22 million were recorded as we reduced the size of the investment securities portfolio and its sensitivity to interest rates. In addition, Agency RMBS securities with an amortized cost of \$7.3 billion and fair value of \$7.0 billion were transferred from available-for-sale securities to held-to-maturity securities. These combined actions are expected to mute the impact to our accumulated other comprehensive income in the event of a rise in interest rates.

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

| Net securities gains (losses)<br>(in millions) | 3Q13 | 2Q13 | 3Q12 | YTD13 | YTD12 |   |
|--|------|------|------|-------|-------|---|
| U.S. Treasury                                  | \$22 | \$31 | \$—  | \$49  | \$82  |   |
| Commercial MBS                                 | —    | 7    | —    | 15    | —     |   |
| Foreign covered bonds                          | —    | —    | —    | 8     | —     |   |
| Sovereign debt                                 | 1    | —    | 15   | 2     | 83    |   |
| Non-agency RMBS                                | (4   | )(3  | )(3  | )(3   | )(44  | ) |
| European floating rate notes                   | 3    | (10  | )(6  | )(3   | )(29  | ) |
| Corporate bonds                                | —    | —    | 10   | —     | 19    |   |
| Other  | —    | 7    | 6    | 34    | 1     |   |
| Total net securities gains                     | \$22 | \$32 | \$22 | \$102 | \$112 |   |

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the third quarter of 2013, this analysis resulted in \$3 million of credit losses primarily on Alt-A and prime RMBS. If we were to increase or decrease each of our projected loss severities and default rates by 100 basis points on each of the positions in our Alt-A, subprime and

prime RMBS portfolios, including the securities previously held by the Grantor Trust, credit-related impairment charges on these securities would have increased by \$2 million (pre-tax) or decreased by \$1 million (pre-tax) at Sept. 30, 2013. See Note 4 of the Notes to Consolidated Financial Statements for the projected weighted-average default rates and loss severities.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

At Sept. 30, 2013, the investment securities portfolio included \$41 million of assets not accruing interest. These securities are held at market value.

The following table shows the fair value of the European floating rate notes by geographical location at Sept. 30, 2013. The unrealized loss on these securities was \$65 million at Sept. 30, 2013, an improvement of \$22 million compared with \$87 million at June 30, 2013.

European floating rate notes at Sept. 30, 2013 (a)

| (in millions)    | RMBS    | Other | Total fair value |
|------------------|---------|-------|------------------|
| United Kingdom   | \$1,790 | \$122 | \$1,912          |
| Netherlands      | 740     | 55    | 795              |
| Ireland          | 144     | 23    | 167              |
| Italy            | 112     | —     | 112              |
| Other            | 65      | 69    | 134              |
| Total fair value | \$2,851 | \$269 | \$3,120          |

(a) 62% 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<br>(in billions) | Sept. 30, 2013 |                      |                | Dec. 31, 2012 |                      |                |
|--|----------------|----------------------|----------------|---------------|----------------------|----------------|
|  | Loans          | Unfunded commitments | Total exposure | Loans         | Unfunded commitments | Total exposure |
| Non-margin loans:                              |                |                      |                |               |                      |                |
| Financial institutions                         | \$12.7         | \$16.0               | \$28.7         | \$11.3        | \$15.7               | \$27.0         |
| Commercial                                     | 1.6            | 19.9                 | 21.5           | 1.4           | 18.3                 | 19.7           |
| Subtotal institutional                         | 14.3           | 35.9                 | 50.2           | 12.7          | 34.0                 | 46.7           |
| Wealth management loans and mortgages          | 9.5            | 1.7                  | 11.2           | 8.9           | 1.7                  | 10.6           |
| Commercial real estate                         | 2.0            | 2.1                  | 4.1            | 1.7           | 1.9                  | 3.6            |
| Lease financings                               | 2.2            | —                    | 2.2            | 2.4           | —                    | 2.4            |
| Other residential mortgages                    | 1.4            | —                    | 1.4            | 1.6           | —                    | 1.6            |
| Overdrafts                                     | 4.8            | —                    | 4.8            | 5.3           | —                    | 5.3            |
| Other  | 0.8            | —                    | 0.8            | 0.6           | 0.2                  | 0.8            |
| Subtotal non-margin loans                      | 35.0           | 39.7                 | 74.7           | 33.2          | 37.8                 | 71.0           |
| Margin loans                                   | 15.1           | 0.6                  | 15.7           | 13.4          | 0.9                  | 14.3           |
| Total  | \$50.1         | \$40.3               | \$90.4         | \$46.6        | \$38.7               | \$85.3         |

At Sept. 30, 2013, total exposures were \$90.4 billion, an increase of 6% from \$85.3 billion at Dec. 31, 2012. The increase in total exposure primarily reflects higher margin loans and loans in the financial institutions portfolio, and 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 56% of our total lending exposure at Sept. 30, 2013 and 55% at 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 portfolio exposure (dollar amounts in billions) | Sept. 30, 2013 |                      |                |              |             | Dec. 31, 2012 |                      |                |
|--|----------------|----------------------|----------------|--------------|-------------|---------------|----------------------|----------------|
|  | Loans          | Unfunded commitments | Total exposure | % Inv. grade | % due <1 yr | Loans         | Unfunded commitments | Total exposure |
| Banks  | \$8.3          | \$2.0                | \$10.3         | 84           | % 92        | % \$5.6       | \$2.0                | \$7.6          |
| Asset managers   | 1.2            | 4.0                  | 5.2            | 97           | 73          | 1.1           | 3.8                  | 4.9            |
| Insurance  | 0.1            | 4.3                  | 4.4            | 99           | 26          | 0.1           | 4.3                  | 4.4            |
| Securities industry  | 2.5            | 1.5                  | 4.0            | 96           | 95          | 4.2           | 2.1                  | 6.3            |
| Government   | 0.4            | 3.0                  | 3.4            | 97           | 27          | —             | 2.1                  | 2.1            |
| Other  | 0.2            | 1.2                  | 1.4            | 95           | 53          | 0.3           | 1.4                  | 1.7            |
| Total  | \$12.7         | \$16.0               | \$28.7         | 92           | % 69        | % \$11.3      | \$15.7               | \$27.0         |



The financial institutions portfolio exposure was \$28.7 billion at Sept. 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 92% of the exposures meeting the investment grade equivalent criteria of our internal credit rating classification at Sept. 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 33% expire within 90 days. In addition, 35% 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 97% of the exposures meeting our investment grade equivalent ratings criteria as of Sept. 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<br>(dollar amounts in billions) | Sept. 30, 2013 |                      |                |              |             | Dec. 31, 2012 |                      |                |  |
|---|----------------|----------------------|----------------|--------------|-------------|---------------|----------------------|----------------|--|
|   | Loans          | Unfunded commitments | Total exposure | % Inv. grade | % due <1 yr | Loans         | Unfunded commitments | Total exposure |  |
| Energy and utilities  | \$0.7          | \$ 6.1               | \$ 6.8         | 98           | % 16        | % \$0.5       | \$ 5.5               | \$ 6.0         |  |
| Services and other  | 0.6            | 6.1                  | 6.7            | 94           | 16          | 0.5           | 5.6                  | 6.1            |  |
| Manufacturing   | 0.3            | 5.9                  | 6.2            | 90           | 9           | 0.3           | 5.6                  | 5.9            |  |
| Media and telecom   | —              | 1.8                  | 1.8            | 94           | 2           | 0.1           | 1.6                  | 1.7            |  |
| Total   | \$1.6          | \$ 19.9              | \$ 21.5        | 94           | % 13        | % \$1.4       | \$ 18.3              | \$ 19.7        |  |

The commercial portfolio exposure increased 9% to \$21.5 billion at Sept. 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

|                        | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | June 30, 2013 | Sept. 30, 2013 |   |
|------------------------|----------------|---------------|----------------|---------------|----------------|---|
| Financial institutions | 93             | %93           | %93            | %93           | %92            | % |
| Commercial             | 93             | %93           | %94            | %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 92% of our financial institutions portfolio and 94% of our commercial portfolio rated as investment grade at Sept. 30, 2013.

### Wealth management loans and mortgages

Our Wealth management exposure was \$11.2 billion at Sept. 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 Sept. 30, 2013.

At Sept. 30, 2013, the wealth management mortgage portfolio was comprised of the following geographic concentrations: New York - 22%; California - 21%; Massachusetts - 16%; Florida - 8%; and other - 33%.

#### 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 \$4.1 billion at Sept. 30, 2013 compared with \$3.6 billion at Dec. 31, 2012.

At Sept. 30, 2013, 59% 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 Sept. 30, 2013, our commercial real estate portfolio is comprised of the following concentrations: New York metro - 45%; investment grade REITs - 39%; and other - 16%.

#### Lease financings

The leasing portfolio exposure totaled \$2.2 billion and included \$170 million of airline exposures at Sept. 30, 2013, compared with \$2.4 billion of leasing exposures, including \$191 million of airline exposures, at Dec. 31, 2012. At Sept. 30, 2013, approximately 89% of the leasing exposure was investment grade.

At Sept. 30, 2013, the \$2.0 billion non-airline lease financing portfolio consisted of exposures backed by well-diversified assets, primarily large-ticket transportation equipment.

At Sept. 30, 2013, our \$170 million of exposure to the airline industry consisted of \$68 million to major U.S. carriers, \$80 million to foreign airlines and \$22 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 \$1.4 billion at Sept. 30, 2013, compared with \$1.6 billion at Dec. 31, 2012. Included in this portfolio at Sept. 30, 2013 are \$434 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of Sept. 30, 2013, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination and 22% of the serviced loan balance was 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).

#### 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 \$6.2 billion of loans at Sept. 30, 2013 and \$5.1 billion at Dec. 31, 2012 related to a term loan program that offers fully collateralized loans to broker-dealers.

#### Matter related to Sentinel

BNY Mellon loaned \$312 million to an asset manager, Sentinel Management Group, Inc. ("Sentinel"), secured by securities and cash. Sentinel filed for bankruptcy in 2007, and BNY Mellon's status as a secured lender is the subject of continuing litigation. In 2010, the district court ruled in favor of

BNY Mellon, and the loan was repaid. An appellate court reversed the district court's ruling on Aug. 26, 2013, and remanded to the district court for further proceedings. BNY Mellon held no loans to Sentinel at Sept. 30, 2013. Our status as a secured creditor is subject to ongoing litigation and therefore the loan could be reestablished at some point in the future. For additional information on our legal proceedings related to this matter, see Note 18 of the Notes to Consolidated Financial Statements.

#### 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<br>(dollar amounts in millions)  | Sept. 30,<br>2013 | June 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30,<br>2012 |   |
|---|-------------------|------------------|------------------|-------------------|---|
| Margin loans  | \$15,146          | \$14,434         | \$13,397         | \$13,036          |   |
| Non-margin loans  | 34,992            | 35,873           | 33,232           | 32,853            |   |
| Total loans   | \$50,138          | \$50,307         | \$46,629         | \$45,889          |   |
| Beginning balance of allowance for credit losses                      | \$337             | 358              | \$456            | \$467             |   |
| Provision for credit losses   | 2                 | (19              | ) (61            | ) (5              | ) |
| Net (charge-offs) recoveries:   |                   |                  |                  |                   |   |
| Foreign   | 1                 | —                | —                | —                 |   |
| Commercial  | (1                | ) —              | —                | (1                | ) |
| Other residential mortgages   | —                 | (2               | ) (3             | ) (1              | ) |
| Financial institutions  | —                 | —                | (5               | ) (4              | ) |
| Net (charge-offs)   | —                 | (2               | ) (8             | ) (6              | ) |
| Ending balance of allowance for credit losses                         | \$339             | \$337            | \$387            | \$456             |   |
| Allowance for loan losses   | \$206             | \$212            | \$266            | \$339             |   |
| Allowance for lending-related commitments                             | 133               | 125              | 121              | 117               |   |
| Allowance for loan losses as a percentage of total loans              | 0.41              | %0.42            | %0.57            | %0.74             | % |
| Allowance for loan losses as a percentage of non-margin loans         | 0.59              | %0.59            | %0.80            | %1.03             | % |
| Total allowance for credit losses as a percentage of total loans      | 0.68              | %0.67            | %0.83            | %0.99             | % |
| Total allowance for credit losses as a percentage of non-margin loans | 0.97              | %0.94            | %1.16            | %1.39             | % |

There were no net charge-offs in the third quarter of 2013. Net charge-offs totaled \$6 million in the third quarter of 2012 and \$2 million in the second quarter of 2013. Net charge-offs in the prior periods primarily reflect charge-offs in the other residential mortgages and financial institutions portfolios.

The provision for credit losses was \$2 million in the third quarter of 2013 primarily driven by growth in our total exposure. The provision for credit losses was a credit of \$5 million in the third quarter of 2012 and a credit of \$19 million in the second quarter of 2013. We anticipate the provision for credit losses to be \$0 to \$15 million in the fourth quarter of 2013.

The total allowance for credit losses was \$339 million at Sept. 30, 2013 and \$387 million at Dec. 31, 2012.

The ratio of the total allowance for credit losses to non-margin loans was 0.97% at Sept. 30, 2013, 1.16% at Dec. 31, 2012 and 1.39% at Sept. 30, 2012. The ratio of the allowance for loan losses to non-margin loans was 0.59% at Sept. 30, 2013 compared with 0.80% at Dec. 31, 2012 and 1.03% at Sept. 30, 2012. The decrease in the total allowance for credit losses and the lower ratios at Sept. 30, 2013 compared with both prior periods primarily reflect growth in the loan portfolio.

We had \$15.1 billion of secured margin loans on our balance sheet at Sept. 30, 2013 compared with \$13.4 billion at Dec. 31, 2012 and \$13.0 billion at Sept. 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

36 BNY Mellon

---

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 Sept. 30, 2013. Additionally, the qualitative allowance as a percentage of the total allowance was unchanged from June 30, 2013 to Sept. 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     | Sept. 30, 2013 | June 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30, 2012 |   |
|-----------------------------|----------------|------------------|------------------|----------------|---|
| Commercial                  | 27             | % 28             | % 27             | % 22           | % |
| Other residential mortgages | 21             | 22               | 23               | 31             |   |
| Foreign                     | 14             | 13               | 12               | 12             |   |
| Lease financing             | 12             | 12               | 13               | 12             |   |
| Financial institutions      | 12             | 10               | 9                | 8              |   |
| Commercial real estate      | 9              | 9                | 8                | 8              |   |
| Wealth management (a)       | 5              | 6                | 8                | 7              |   |
| 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 \$91 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by \$52 million, while if the loss given default were one rating better, the allowance would have decreased by \$42 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.

BNY Mellon 37

---

## Nonperforming assets

The following table presents the distribution of nonperforming assets.

| Nonperforming assets<br>(dollars in millions)          | Sept. 30, 2013 | June 30,<br>2013 | Dec. 31, 2012 |   |
|--|----------------|------------------|---------------|---|
| Nonperforming loans:                                   |                |                  |               |   |
| Other residential mortgages                            | \$ 128         | \$ 135           | \$ 158        |   |
| Commercial   | 15             | 24               | 27            |   |
| Wealth management loans and mortgages                  | 12             | 13               | 30            |   |
| Foreign loans  | 9              | 9                | 9             |   |
| Commercial real estate                                 | 4              | 18               | 18            |   |
| Financial institutions                                 | 1              | 2                | 3             |   |
| Total nonperforming loans                              | 169            | 201              | 245           |   |
| Other assets owned                                     | 3              | 3                | 4             |   |
| Total nonperforming<br>assets (a)                      | \$ 172         | \$ 204           | \$ 249        |   |
| Nonperforming assets ratio                             | 0.34           | % 0.41           | % 0.53        | % |
| Nonperforming assets ratio, excluding margin loans     | 0.5            | % 0.6            | % 0.7         | % |
| Allowance for loan losses/nonperforming loans          | 121.9          | % 105.5          | % 108.6       | % |
| Allowance for loan losses/nonperforming assets         | 119.8          | % 103.9          | % 106.8       | % |
| Total allowance for credit losses/nonperforming loans  | 200.6          | % 167.7          | % 158.0       | % |
| Total allowance for credit losses/nonperforming assets | 197.1          | % 165.2          | % 155.4       | % |

Loans of consolidated investment management funds are not part of BNY Mellon's loan portfolio. Included in the loans of consolidated investment management funds are nonperforming loans of \$31 million at Sept. 30, 2013, \$44 (a) million at June 30, 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)                          | Sept. 30, 2013 | June 30,<br>2013 | Dec. 31, 2012 |   |
|--|----------------|------------------|---------------|---|
| Balance at beginning of period         | \$ 204         | \$ 234           | \$ 274        |   |
| Additions                              | 7              | 9                | 12            |   |
| Return to accrual status               | (8)            | )(11             | )(16          | ) |
| Charge-offs                            | (2)            | )(3              | )(3           | ) |
| Paydowns/sales                         | (28)           | )(24             | )(16          | ) |
| Transferred to other real estate owned | (1)            | )(1              | )(2           | ) |
| Balance at end of period               | \$ 172         | \$ 204           | \$ 249        |   |

Nonperforming assets were \$172 million at Sept. 30, 2013, a decrease of \$32 million compared with \$204 million at June 30, 2013. The decrease primarily resulted from sales of loans in the commercial and other residential mortgage portfolios, a payoff in the commercial real estate portfolio and returns to accrual

status in the commercial real estate and other residential mortgage portfolios.

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 \$255.6 billion at Sept. 30, 2013, an increase of 4% compared with \$246.1 billion at Dec. 31, 2012. The increase in deposits reflects higher levels of interest-bearing deposits in both the U.S. and non-U.S. offices, partially offset by lower noninterest-bearing deposits.

Noninterest-bearing deposits were \$87.3 billion at Sept. 30, 2013 compared with \$93.0 billion at Dec. 31, 2012. Interest-bearing deposits were \$168.3 billion at Sept. 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 short-term borrowings and long-term debt. Short-term borrowings 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.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Federal funds purchased and securities sold under repurchase agreements

| (dollar amounts in millions)             | Quarter ended  |               |                |
|--|----------------|---------------|----------------|
|  | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 |
| Maximum daily balance during the quarter | \$20,994       | \$13,484      | \$15,712       |
| Average daily balance                    | \$12,164       | \$9,206       | \$10,092       |
| Weighted-average rate during the quarter | (0.12) %       | (0.28) %      | (0.06) %       |
| Ending balance                           | \$9,737        | \$12,600      | \$12,450       |
| Weighted-average rate at period end      | (0.07) %       | (0.26) %      | (0.02) %       |

Federal funds purchased and securities sold under repurchase agreements were \$9.7 billion at Sept. 30, 2013 compared with \$12.6 billion at June 30, 2013 and \$12.5 billion at Sept. 30, 2012. The changes from both prior periods resulted from overnight borrowing opportunities at quarter end. The maximum daily balance in the third quarter of 2013 was \$21.0 billion compared with \$13.5 billion in the second quarter of 2013 and \$15.7 billion in the third quarter of 2012. The average daily balance was \$12.2 billion in the third quarter of 2013, \$9.2 billion in the second quarter of 2013 and \$10.1 billion in the third quarter of 2012. The changes from both prior periods resulted from overnight borrowing opportunities during the quarter. The weighted-average rates in all periods presented 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

| (dollar amounts in millions)             | Quarter ended  |               |                |
|--|----------------|---------------|----------------|
|  | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 |
| Maximum daily balance during the quarter | \$16,938       | \$16,458      | \$14,639       |
| Average daily balance (a)                | \$15,405       | \$15,055      | \$13,205       |
| Weighted-average rate during the quarter | 0.09 %         | 0.08 %        | 0.10 %         |
| Ending balance                           | \$15,293       | \$15,267      | \$13,675       |
| Weighted-average rate at period end      | 0.10 %         | 0.09 %        | 0.09 %         |

The weighted-average rate is calculated based on, and is applied to, the average interest-bearing payables to (a) customers and broker-dealers, which were \$8,659 million in the third quarter of 2013, \$9,073 million in the second quarter of 2013 and \$8,141 million in the third 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 both Sept. 30, 2013 and June 30, 2013 and \$13.7 billion at Sept. 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<br>(dollar amounts in millions) | Quarter ended  |               |                |
|--|----------------|---------------|----------------|
|  | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 |
| Maximum daily balance during the quarter         | \$4,873        | \$924         | \$2,331        |
| Average daily balance                            | \$1,186        | \$58          | \$968          |
| Weighted-average rate during the quarter         | 0.05 %         | 0.04 %        | 0.12 %         |
| Ending balance                                   | \$1,851        | \$111         | \$1,278        |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|                                     |      |   |      |   |      |   |
|-------------------------------------|------|---|------|---|------|---|
| Weighted-average rate at period end | 0.01 | % | 0.03 | % | 0.11 | % |
|-------------------------------------|------|---|------|---|------|---|

Commercial paper outstanding was \$1.9 billion at Sept. 30, 2013 compared with \$111 million at June 30, 2013, and \$1.3 billion at Sept. 30, 2012. Average commercial paper outstanding was \$1.2 billion in the third quarter of 2013, \$58 million in the second quarter of 2013 and \$968 million in the third quarter of 2012. The maximum daily balance in the third quarter of 2013 was \$4.9 billion compared with \$924 million in the second quarter of 2013 and \$2.3 billion in the third quarter of 2012. Fluctuations between periods were a result of attractive overnight borrowing opportunities and Parent funding requirements. Our commercial paper matures within 397 days from date of issue and is not redeemable prior to maturity or subject to voluntary prepayment.

Information related to other borrowed funds is presented below.

| Other borrowed funds<br>(dollar amounts in millions) | Quarter ended  |               |                |
|--|----------------|---------------|----------------|
|  | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 |
| Maximum daily balance during the quarter             | \$3,633        | \$3,720       | \$1,345        |
| Average daily balance                                | \$1,047        | \$1,385       | \$887          |
| Weighted-average rate during the quarter             | 0.35           | % 0.20        | % 1.31         |
| Ending balance                                       | \$844          | \$1,060       | \$1,139        |
| Weighted-average rate at period end                  | 0.46           | % 0.34        | % 1.66         |

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 \$844 million at Sept. 30, 2013 compared with \$1.1 billion at both June 30, 2013 and Sept. 30, 2012. Other borrowed funds averaged \$1.0 billion in the third quarter of 2013, \$1.4 billion in the second quarter of 2013 and \$887 million in the third quarter of 2012. The maximum daily balance in the third quarter of 2013 was \$3.6 billion compared with \$3.7 billion in the second quarter of 2013 and \$1.3 billion in the third quarter of 2012. Changes from 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 our financial condition. Liquidity risk can arise from cash flow mismatches, market constraints from the 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.

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 Sept. 30, 2013. In addition, we also monitor the Basel III liquidity coverage ratio expected to be applied to us, based on our interpretation of the proposed rules.

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-

40 BNY Mellon

---

end and on an average basis. The higher level of available funds at Sept. 30, 2013 compared with Dec. 31, 2012 primarily resulted from a higher level of

client deposits and attractive overnight borrowing opportunities.

| Available and liquid funds (in millions)                                   | Sept. 30, 2013 | Dec. 31, 2012 | Average 3Q13 | 2Q13      | 3Q12      | YTD13     | YTD12     |
|--|----------------|---------------|--------------|-----------|-----------|-----------|-----------|
| Available funds:   |                |               |              |           |           |           |           |
| Liquid funds:  |                |               |              |           |           |           |           |
| Interest-bearing deposits with banks                                       | \$41,390       | \$43,910      | \$41,597     | \$42,772  | \$41,201  | \$41,781  | \$38,267  |
| Federal funds sold and securities purchased under resale agreements        | 9,191          | 6,593         | 8,864        | 7,878     | 5,315     | 8,078     | 5,327     |
| Total liquid funds   | 50,581         | 50,503        | 50,461       | 50,650    | 46,516    | 49,859    | 43,594    |
| Cash and due from banks  | 7,304          | 4,727         | 6,400        | 5,060     | 4,276     | 5,338     | 4,320     |
| Interest-bearing deposits with the Federal Reserve and other central banks | 95,519         | 90,110        | 65,704       | 55,911    | 61,849    | 61,627    | 61,096    |
| Total available funds  | \$153,404      | \$145,340     | \$122,565    | \$111,621 | \$112,641 | \$116,824 | \$109,010 |
| Total available funds as a percentage of total assets                      | 41 %           | 40 %          | 36 %         | 33 %      | 35 %      | 35 %      | 35 %      |

On an average basis for the first nine months of 2013 and the first nine months of 2012, non-core sources of funds such as money market rate accounts, federal funds purchased, trading liabilities, commercial paper and other borrowings were \$20.2 billion and \$20.8 billion, respectively. The decrease primarily reflects lower levels of money market rate accounts, partially offset by higher levels of trading liabilities. Average foreign deposits, primarily from our European-based Investment Services business, were \$100.6 billion for the first nine months of 2013 compared with \$89.5 billion for the first nine months of 2012. The increase primarily reflects growth in client deposits. Domestic savings and time deposits averaged \$41.7 billion for the first nine months of 2013 compared with \$34.4 billion for the first nine months of 2012. The increase primarily reflects higher time deposits.

Average payables to customers and broker-dealers were \$8.9 billion for the first nine months of 2013 and \$7.9 billion for the first nine months of 2012. Payables to customers and broker-dealers are driven by customer trading activity and market volatility. Long-term debt averaged \$19.0 billion for the first nine months of 2013 and \$20.1 billion for the first nine 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 \$71.0 billion for the first nine months of 2013 from \$66.6 billion for the first nine months of 2012 reflecting growth in client deposits. A significant reduction in our Investment Services business would reduce our access to deposits. See "Asset/liability management" for additional factors that could impact our deposit balances.

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 Sept. 30, 2013, our bank subsidiaries could declare dividends to the Parent of approximately \$2.6 billion, without the need for a regulatory waiver. In addition, at Sept. 30, 2013, non-bank subsidiaries of the Parent had liquid assets of approximately \$1.6 billion.

In July 2013, BNY Mellon paid a quarterly cash dividend of \$0.15 per common share. Our common stock dividend payout ratio was 33% for the first nine months of 2013, or 24% after adjusting for the impact of the U.S. Tax Court's decisions regarding 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.

BNY Mellon 41

---

The Parent's average commercial paper borrowings were \$1.2 billion in the third quarter of 2013 compared with \$968 million in the third quarter of 2012. The Parent had cash of \$7.1 billion at Sept. 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 \$1.9 billion at Sept. 30, 2013 and \$338 million at Dec. 31, 2012. Net of commercial paper outstanding, the Parent's cash position at Sept. 30, 2013, increased by \$1.5 billion compared with Dec. 31, 2012, primarily reflecting the issuance of senior debt and preferred stock, partially offset by maturities of long-term debt.

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

In the third quarter of 2013, we repurchased 3.9 million common shares in the open market, at an average price of \$31.28 per share, for a total of \$121 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 Sept. 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 Securities and Exchange Commission ("SEC") covering the issuance of certain securities, including an unlimited amount of debt, common stock, preferred stock and trust preferred securities, as well as common stock issued under the Direct Stock Purchase and Dividend Reinvestment Plans. These registration statements will expire in June 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 Sept. 30, 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. In separate statements in June 2013 and August 2013, both S&P and Moody's indicated that they are reconsidering their inclusion of assumed government support in their ratings on the eight U.S. bank holding companies that they view as having high systemic importance, including The Bank of New York Mellon Corporation.

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. On Sept. 25, 2013, Moody's extended its review and indicated it would consider both the standalone and government support ratings on the U.S. trust and custody banks simultaneously. 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

42 BNY Mellon

---

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 \$18.9 billion at Sept. 30, 2013 and \$18.5 billion at Dec. 31, 2012. In the first nine months of 2013, the Parent issued \$2.7 billion of senior debt, partially offset by maturities of \$1.5 billion, a decrease in the fair value of hedged long-term debt and \$300 million of repayments of trust preferred securities. The fair value of the derivatives hedging long-term debt is recorded in other assets. Additionally, the Parent called \$106 million of subordinated debt in the first nine months of 2013.

The following table presents the long-term debt issued by the Parent in the third quarter of 2013.

| Debt issuances<br>(in millions)                          | Quarter ended<br>Sept. 30, 2013 |
|--|---------------------------------|
| Senior medium-term notes:                                |                                 |
| 3-month LIBOR + 56 bps senior medium-term notes due 2018 | \$500                           |
| 2.1% senior medium-term notes due 2018                   | 600                             |
| 3-month LIBOR + 50 bps senior medium-term notes due 2018 | 100                             |
| Total debt issuances                                     | \$1,200                         |
| bps - basis points.                                      |                                 |

At Sept. 30, 2013, we had \$324 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 Capital Rules.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity, which includes our noncumulative perpetual preferred stock plus trust preferred securities. Our double leverage ratio was 109.0% at Sept. 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 third quarter of 2013. Pershing LLC has nine separate uncommitted lines of credit amounting to \$1.6 billion in aggregate. There were no borrowings against these lines in the third 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 \$65 million, in aggregate, in the third quarter of 2013.

Statement of cash flows

Cash used for operating activities was \$55 million for the nine months ended Sept. 30, 2013 compared with cash provided by operating activities of \$1.3 billion for the nine months ended Sept. 30, 2012. In the first nine months of 2013, cash flows used for operating activities were principally the result of changes in trading activity and accruals and other balances, partially offset by earnings. In the first nine months of 2012, earnings were a significant source of funds.

In the nine months ended Sept. 30, 2013, cash used for investing activities was \$8.5 billion compared with \$10.4 billion in the nine months ended Sept. 30, 2012. In the first nine months of 2013, purchases of securities, changes in interest-bearing deposits with the Federal Reserve and other central banks, 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 interest-bearing deposits with banks. In the first nine months of 2012, purchases of securities, and changes in interest-bearing deposits with banks were a significant use of funds, partially offset by decreases in interest-bearing deposits with the Federal Reserve and other central banks and sales, paydowns, and maturities of securities.

In the nine months ended Sept. 30, 2013, cash provided by financing activities was \$11.2 billion compared with \$9.9 billion for the nine months ended Sept. 30, 2012. In the first nine months of 2013, an increase in deposits, the net proceeds from the issuance of long-term debt, changes in federal funds purchased and securities sold under repurchase agreements and commercial paper were significant sources of funds, partially offset by the repayment of

long-term debt, a decrease in payables to customers and broker dealers and common stock repurchases. In the first nine months of 2012, increases in federal funds purchased and securities sold under repurchase agreements, deposits, commercial paper and the issuance of long-term debt were significant sources of funds, partially offset by repayment of long-term debt, a decrease in other borrowed funds and common stock repurchases.

## Capital

| Capital data<br>(dollar amounts in millions except per share amounts;<br>common shares in thousands)  | Sept. 30,<br>2013 | June 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30,<br>2012 |   |
|---|-------------------|------------------|------------------|-------------------|---|
| Average common equity to average assets   | 10.0              | % 10.2           | % 10.4           | % 10.8            | % |
| At period end:  |                   |                  |                  |                   |   |
| BNY Mellon shareholders' equity to total assets ratio (a)   | 9.9               | % 10.0           | % 10.1           | % 10.7            | % |
| BNY Mellon common shareholders' equity to total assets ratio (a)                                      | 9.5               | % 9.5            | % 9.9            | % 10.3            | % |
| Tangible BNY Mellon common shareholders' equity to tangible assets of operations ratio – Non-GAAP (a) | 6.4               | % 5.8            | % 6.4            | % 6.3             | % |
| Total BNY Mellon shareholders' equity – GAAP  | \$36,959          | \$35,882         | \$36,431         | \$36,218          |   |
| Total BNY Mellon common shareholders' equity – GAAP   | \$35,397          | \$34,320         | \$35,363         | \$35,182          |   |
| Tangible BNY Mellon shareholders' equity – Non-GAAP (a)   | \$15,349          | \$14,282         | \$14,919         | \$14,712          |   |
| Book value per common share – GAAP (a)  | \$30.82           | \$29.83          | \$30.39          | \$30.11           |   |
| Tangible book value per common share – Non-GAAP (a)   | \$13.36           | \$12.41          | \$12.82          | \$12.59           |   |
| Closing common stock price per share  | \$30.19           | \$28.05          | \$25.70          | \$22.62           |   |
| Market capitalization   | \$34,674          | \$32,271         | \$29,902         | \$26,434          |   |
| Common shares outstanding   | 1,148,522         | 1,150,477        | 1,163,490        | 1,168,607         |   |
| Cash dividends per common share   | \$0.15            | \$0.15           | \$0.13           | \$0.13            |   |
| Common dividend payout ratio  | 18                | % 21             | % 25             | % 21              | % |
| Common dividend yield (annualized)  | 2.0               | % 2.1            | % 2.0            | % 2.3             | % |

(a) See "Supplemental information - Explanation of GAAP and 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 Sept. 30, 2013 increased to \$37.0 billion from \$36.4 billion at Dec. 31, 2012. The increase primarily reflects earnings retention and the issuance of \$500 million of noncumulative perpetual preferred stock, partially offset by a decline in the value of our investment securities portfolio and share repurchases. Additionally, in the first nine months of 2013, we generated approximately \$400 million of capital through the exercise of stock options and awards and employee benefit plan contributions.

The unrealized net of tax gain on our available-for-sale investment securities portfolio recorded in accumulated other comprehensive income was \$456 million at Sept. 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 \$102 million of net realized securities gains in the first nine months of 2013.

In the first nine months of 2013, we repurchased 25.0 million common shares for a total of \$705 million, including open market purchases of 3.9 million common shares for a total of \$121 million in the third quarter of 2013.

From Oct. 1, 2013 through Nov. 7, 2013, we repurchased 10.0 million common shares in the open market, at an average price of \$31.83 per common share for a total of \$318 million.

On Oct. 16, 2013, the board of directors declared a quarterly common stock dividend of \$0.15 per share.

44 BNY Mellon

---

This cash dividend was paid on Nov. 5, 2013, to shareholders of record as of the close of business on Oct. 28, 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 Sept. 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<br>capitalized | Adequately<br>capitalized | Sept. 30,<br>2013 | June 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30,<br>2012 |   |
|---|---------------------|---------------------------|-------------------|------------------|------------------|-------------------|---|
| Consolidated capital ratios:                                      |                     |                           |                   |                  |                  |                   |   |
| Estimated Basel III Tier 1 common equity ratio – Non-GAAP (a)(b)  |                     |                           |                   |                  |                  |                   |   |
| Standardized Approach   | N/A                 | N/A                       | 10.1              | %9.3             | %N/A             | N/A               |   |
| Advanced Approach   | N/A                 | N/A                       | 11.1              | %9.8             | %9.8             | %9.3              | % |
| Determined under Basel I-based guidelines (c):                    |                     |                           |                   |                  |                  |                   |   |
| Tier 1 common equity to risk-weighted assets ratio – Non-GAAP (b) | N/A                 | N/A                       | 14.2              | %13.2            | %13.5            | %13.3             | % |
| Tier 1 capital  | 6                   | %N/A                      | 15.8              | %14.8            | %15.0            | %15.3             | % |
| Total capital   | 10                  | %N/A                      | 16.8              | %15.8            | %16.3            | %16.9             | % |
| Leverage – guideline  | 5                   | %N/A                      | 5.6               | %5.3             | %5.3             | %5.6              | % |
| The Bank of New York Mellon capital ratios (c):                   |                     |                           |                   |                  |                  |                   |   |
| Tier 1 capital  | 6                   | %4                        | %14.3             | %13.4            | %14.0            | %14.1             | % |
| Total capital   | 10                  | %8                        | %14.8             | %13.9            | %14.6            | %14.8             | % |
| Leverage  | 5                   | %3% - 4%                  | (d) 5.3           | %5.3             | %5.4             | %5.5              | % |

(a) At Sept. 30, 2013, the estimated Basel III Tier 1 common equity ratio is based on our interpretation of and expectations regarding the Final Capital Rules released by the Federal Reserve on July 2, 2013, on a fully phased-in basis. For periods prior to June 30, 2013, these ratios were estimated using our interpretations of the NPRs dated June 7, 2012, on a fully phased-in basis.

(b) See “Supplemental Information - Explanation of GAAP and Non-GAAP financial measures” beginning on page 52 for a calculation of these ratios.

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

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

(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 at the consolidated company level for Basel III Tier 1 common equity.

| 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 June 30, 2013 (a)    | 9.3                   | % 9.8             | % |
| Impacted by:  |                       |                   |   |
| Capital generation  | 50 bps                | 52 bps            |   |
| Change in accumulated other comprehensive income (loss) (b)                       | (3) bps               | (3) bps           |   |
| Change in risk-weighted assets  | 2 bps                 | 54 bps            |   |
| Other (c)   | 26 bps                | 28 bps            |   |
| Estimated Basel III Tier 1 common equity ratio - Non-GAAP at Sept. 30, 2013 (a)   | 10.1                  | % 11.1            | % |

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

(b) On a fully phased-in basis.

(c) Includes foreign currency translation.

bps - basis points.

Our estimated Basel III Tier 1 common equity ratio (non-GAAP), which was based on our interpretation of and expectations regarding the Final Capital Rules, calculated under the Standardized approach, on a fully phased-in basis, was 10.1% at Sept. 30, 2013, compared with 9.3% at June 30, 2013. The increase primarily resulted from capital generation and the positive impact of foreign currency translation. For additional information on the Final Capital Rules, see “Recent accounting and regulatory developments - Regulatory developments”.

At Sept. 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 Sept. 30, 2013<br>(in millions) | Consolidated | The Bank of<br>New York<br>Mellon |
|---|--------------|-----------------------------------|
| Tier 1 capital  | \$11,211     | \$7,978                           |
| Total capital   | 7,794        | 4,631                             |
| Leverage  | 1,902        | 895                               |

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 in assets. 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 third quarter of 2013, net Basel I Tier 1 common equity increased \$1.1 billion, primarily driven by earnings retention and the positive impact of foreign currency translation.

Our Basel I Tier 1 capital ratio was 15.8% at Sept. 30, 2013 compared with 15.0% at Dec. 31, 2012. Our Basel I Tier 1 leverage ratio was 5.6% at Sept. 30, 2013 and 5.3% at Dec. 31, 2012. The leverage ratio of The Bank of New York Mellon was 5.3% at Sept. 30, 2013 compared with 5.4% at Dec. 31, 2012. The increases in the Basel I Tier 1 ratios primarily reflects earnings retention and the issuance of noncumulative perpetual preferred stock, partially offset by share repurchases and the redemption of trust-preferred securities. The Basel I Tier 1 capital ratio was also impacted by an increase in risk-weighted assets, while the Basel I Tier 1 leverage ratio was impacted by an increase in average assets. Additionally, the decrease in the leverage ratio of The Bank of New York Mellon reflects the impact of the U.S. Tax Court’s decisions regarding certain foreign tax credits.

The Tier 1 capital and total capital ratios for The Bank of New York Mellon increased at Sept. 30, 2013 compared with Dec. 31, 2012. The increases in these ratios primarily reflect earnings retention, partially offset by an increase in risk-weighted assets.

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 Sept. 30, 2013.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

Potential impact to capital ratios as of Sept. 30, 2013

| (basis points)                        | Increase or decrease of              |   |
|---------------------------------------|--------------------------------------|---|
|                                       | \$100 million<br>in common<br>equity | \$1 billion in<br>risk-weighted<br>assets/quarterly<br>average assets (a) |
| Basel I:                              |                                      |   |
| Tier 1 capital                        | 9                                    | bps 14  |
| Total capital                         | 9                                    | 15  |
| Leverage                              | 3                                    | 2   |
| Basel III:                            |                                      |   |
| Estimated Tier 1 common equity ratio: |                                      |   |
| Standardized Approach                 | 7                                    | bps 7   |
| Advanced Approach                     | 8                                    | 9   |

(a) Quarterly average assets determined under Basel I regulatory guidelines. For Basel III, quarterly average assets are determined under the Final Capital Rules.

Our tangible BNY Mellon common shareholders' equity to tangible assets of operations ratio was 6.4% at both Sept. 30, 2013 and Dec. 31, 2012. Earnings retention and the issuance of noncumulative perpetual preferred stock was offset by a decline in the value of our investment securities portfolio, share repurchases and an increase in total tangible assets.

At Sept. 30, 2013, we had \$324 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 Capital 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 Sept. 30, 2013, June 30, 2013, Dec. 31, 2012 and Sept. 30, 2012.

| Components of Basel I Tier 1 and total risk-based capital (a)<br>(in millions) | Sept. 30,<br>2013 | June 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30,<br>2012 |
|--|-------------------|------------------|------------------|-------------------|
| Tier 1 capital:  |                   |                  |                  |                   |
| Common shareholders' equity  | \$35,397          | \$34,320         | \$35,363         | \$35,182          |
| Preferred stock  | 1,562             | 1,562            | 1,068            | 1,036             |
| Trust preferred securities   | 324               | 303              | 623              | 1,173             |
| Adjustments for:   |                   |                  |                  |                   |
| Goodwill and other intangibles (b)   | (20,048)          | (20,038)         | (20,445)         | (20,469)          |
| Pensions/cash flow hedges  | 1,344             | 1,387            | 1,454            | 1,344             |
| Securities valuation allowance   | (487)             | (560)            | (1,350)          | (1,448)           |
| Merchant banking investments   | (18)              | (23)             | (19)             | (21)              |
| Total Tier 1 capital   | 18,074            | 16,951           | 16,694           | 16,797            |
| Tier 2 capital:  |                   |                  |                  |                   |
| Qualifying unrealized gains on equity securities                               | 3                 | 3                | 2                | 1                 |
| Qualifying subordinated debt   | 818               | 853              | 1,058            | 1,272             |
| Qualifying allowance for credit losses   | 339               | 337              | 386              | 456               |
| Total Tier 2 capital   | 1,160             | 1,193            | 1,446            | 1,729             |
| Total risk-based capital   | \$19,234          | \$18,144         | \$18,140         | \$18,526          |
| Total risk-weighted assets   | \$114,404         | \$114,511        | \$111,180        | \$109,867         |
| Average assets for leverage capital purposes                                   | \$323,462         | \$317,542        | \$315,273        | \$298,176         |

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

Reduced by deferred tax liabilities associated with non-tax deductible identifiable intangible assets of \$1,242 million at Sept. 30, 2013, \$1,269 million at June 30, 2013, \$1,310 million at Dec. 31, 2012 and \$1,339 million at

(b) Sept. 30, 2012 and deferred tax liabilities associated with tax deductible goodwill of \$1,262 million at Sept. 30, 2013, \$1,200 million at June 30, 2013, \$1,130 million at Dec. 31, 2012 and \$1,057 million at Sept. 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

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

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)<br>(in millions) | 3rd Quarter 2013 |         |         | Sept. 30, 2013 |   |
|--------------------------|------------------|---------|---------|----------------|---|
|                          | Average          | Minimum | Maximum |                |   |
| Interest rate            | \$9.6            | \$6.8   | \$12.6  | \$9.9          |   |
| Foreign exchange         | 1.1              | 0.6     | 1.9     | 1.9            |   |
| Equity                   | 2.4              | 1.4     | 3.4     | 3.4            |   |
| Diversification          | (2.8             | ) N/M   | N/M     | (3.9           | ) |
| Overall portfolio        | 10.3             | 7.0     | 12.9    | 11.3           |   |

BNY Mellon 47

---

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| VaR (a)<br>(in millions) | 2nd Quarter 2013 |         |         | June 30,<br>2013 |
|--------------------------|------------------|---------|---------|------------------|
|                          | Average          | Minimum | Maximum |                  |
| 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)<br>(in millions) | 3rd Quarter 2012 |         |         | Sept. 30, 2012 |
|--------------------------|------------------|---------|---------|----------------|
|                          | Average          | Minimum | Maximum |                |
| Interest rate            | \$12.4           | \$9.5   | \$16.5  | \$11.7         |
| Foreign exchange         | 0.8              | —       | 2.0     | 0.9            |
| Equity                   | 1.5              | 0.9     | 2.3     | 1.7            |
| Diversification          | (2.4             | ) N/M   | N/M     | (1.7           |
| Overall portfolio        | 12.3             | 9.3     | 17.0    | 12.6           |

| VaR (a)<br>(in millions) | Year-to-date 2013 |         |         |
|--------------------------|-------------------|---------|---------|
|                          | Average           | Minimum | Maximum |
| Interest rate            | \$10.7            | \$6.8   | \$14.8  |
| Foreign exchange         | 1.1               | 0.5     | 2.3     |
| Equity                   | 2.5               | 1.1     | 4.4     |
| Diversification          | (2.9              | ) N/M   | N/M     |
| Overall portfolio        | 11.4              | 7.0     | 14.8    |

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

VaR figures do not reflect the impact of CVA (as defined below) guidance in ASC 820. This is consistent with the (a) 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, 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 third quarter of 2013, interest rate risk generated 73% of average VaR, equity risk generated 18% of average VaR and foreign exchange risk accounted for 9% of average VaR. During the third 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 sequential decrease in the number of trading days greater than \$5 million is attributable to an overall reduction in trading revenue and lower foreign exchange revenue largely driven by lower volatility, partially offset by a slight increase in volumes.

Distribution of trading revenues (losses) (a)

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

(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 overnight index swap (“OIS”) curve discounting.

### Foreign exchange and other trading

Foreign exchange and other trading revenue totaled \$160 million in the third quarter of 2013, \$182 million in the third quarter of 2012 and \$207 million in the second quarter of 2013. In the third quarter of 2013, foreign exchange revenue totaled \$154 million, an increase of 27% year-over-year and a decrease of 14% (unannualized) sequentially. The year-over-year increase primarily reflects higher volumes and volatility. The sequential decrease was primarily driven by lower volatility while volumes increased slightly. Other trading revenue totaled \$6 million in the third quarter of 2013, compared with \$61 million in the third quarter of 2012 and \$28 million in the second quarter of 2013. The decrease compared with both prior periods primarily reflects lower fixed income trading revenue due to lower derivatives trading revenue. The year-over-year decrease also reflects a loss on inventory driven by higher interest rates. 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 \$12 billion at Sept. 30, 2013 compared with \$9 billion at Dec. 31, 2012. The increase in trading assets primarily resulted from a higher level of securities inventory, primarily U.S. Treasury securities, Agency RMBS and U.S. equity securities, as we expand our broker-dealer business.

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 \$9 billion at Sept. 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 Sept. 30, 2013, our over-the-counter (“OTC”) derivative assets of \$4.3 billion included a credit valuation adjustment (“CVA”) deduction of \$37 million. Our OTC derivative liabilities of \$6.1 billion included a debit valuation adjustment (“DVA”) of \$11 million related to our own credit spread. Net of hedges, the CVA decreased \$2 million and the DVA increased \$1 million in the third quarter of 2013. The net impact of these adjustments increased foreign exchange and other trading revenue by \$3 million in the third quarter of 2013.

In the second quarter of 2013, net of hedges, the CVA and DVA were unchanged. Foreign exchange and other trading revenue was not impacted by the CVA and DVA in the second quarter of 2013.

In the third quarter of 2012, net of hedges, the CVA decreased \$28 million and the DVA decreased \$4 million. The net impact of these adjustments increased foreign exchange and other trading revenue by \$24 million in the third 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 sequential increase in the percentage of exposure to counterparties with a risk rating profile of A+ to A- was mainly due to an increase in interest rate swap exposures driven by higher long-term rates. The sequential decrease in the percentage of exposure to counterparties with a risk rating profile of AAA+ to AA- largely reflects an improvement in key currency rates and changes in the portfolio composition.

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

|  | Quarter ended  |               |                |               |                |   |
|--|----------------|---------------|----------------|---------------|----------------|---|
|  | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | June 30, 2013 | Sept. 30, 2013 |   |
| Rating:                                    |                |               |                |               |                |   |
| AAA to AA-                                 | 43             | %38           | %37            | %41           | %35            | % |
| A+ to A-                                   | 27             | 35            | 40             | 38            | 43             |   |
| BBB+ to<br>BBB-                            | 23             | 22            | 19             | 17            | 16             |   |
| Non-investment<br>grade (BB+<br>and lower) | 7              | 5             | 4              | 4             | 6              |   |
| 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<br>interest revenue<br>(dollars in millions) | Sept. 30, 2013 | June 30, 2013 |
|---|----------------|---------------|
| up 200 bps parallel rate ramp vs.                                     | \$617          | \$402         |

|   |      |       |
|---|------|-------|
| baseline (a)  |      |       |
| up 100 bps parallel rate ramp vs.   |      |       |
| baseline (a)  | 387  | 324   |
| Long-term up 50 bps, short-term unchanged (b)   | 174  | 130   |
| Long-term down 50 bps, short-term unchanged (b)   | (144 | )(123 |
| (a) In the parallel rate ramp, both short-term and long-term rates move in four equal quarterly increments. |      | )     |
| (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:

- ♣ Monetary policy;
- ♣ Global economic uncertainty;
- ♣ Our ratings relative to other financial institutions' ratings; and
- ♣ Money market mutual fund and other regulatory 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.

BNY Mellon 51

---

## Supplemental information - Explanation of GAAP and 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 that 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 interpretation, expectations and understanding of the final Basel III rules released by the Federal Reserve on July 2, 2013, on a fully phased-in basis 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 estimated Basel III Tier 1 common equity ratio may

change based on these factors. Management views the estimated 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 estimated Basel III Tier 1 common equity ratio is intended to allow investors to compare BNY Mellon's estimated Basel III Tier 1 common equity ratio with estimates presented by other companies.

BNY Mellon has presented revenue measures that exclude the effect of noncontrolling interests related to consolidated investment management funds and gains related to an equity investment; and expense measures which exclude 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. Return on equity measures also exclude the (benefit) net charge related to the disallowance of certain foreign tax credits. BNY Mellon believes 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 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.

52 BNY Mellon

---



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 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 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 a reconciliation of net income and diluted earnings per common share.

| (in millions, except per share amounts)   | 3Q13       |             |
|---|------------|-------------|
|   | Net income | Diluted EPS |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP                              | \$967      | \$0.82      |
| (Benefit) related to the U.S. Tax Court’s partial reconsideration of a tax decision disallowing certain foreign tax credits | (261)      | (0.22)      |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – Non-GAAP                          | \$706      | \$0.60      |

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

| Reconciliation of income before income taxes – pre-tax operating margin<br>(dollars in millions)   | 3Q13    | 2Q13    | 3Q12    | YTD13    | YTD12    |
|--|---------|---------|---------|----------|----------|
| Income before income taxes – GAAP  | \$986   | \$1,206 | \$975   | \$3,001  | \$2,449  |
| Less: Net income attributable to noncontrolling interests of consolidated investment management funds  | 8       | 39      | 25      | 63       | 65       |
| Add: Amortization of intangible assets   | 81      | 93      | 95      | 260      | 288      |
| M&I, litigation and restructuring charges  | 16      | 13      | 26      | 68       | 513      |
| 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 | \$1,075 | \$1,273 | \$1,071 | \$3,266  | \$3,185  |
| Fee and other revenue – GAAP   | \$2,963 | \$3,187 | \$2,879 | \$8,994  | \$8,543  |
| Income from consolidated investment management funds – GAAP  | 32      | 65      | 47      | 147      | 147      |
| Net interest revenue – GAAP  | 772     | 757     | 749     | 2,248    | 2,248    |
| Total revenue – GAAP   | 3,767   | 4,009   | 3,675   | 11,389   | 10,938   |
| Less: Net income attributable to noncontrolling interests of consolidated investment management funds  | 8       | 39      | 25      | 63       | 65       |
| Total revenue excluding net income attributable to noncontrolling interests of consolidated investment management funds – Non-GAAP   | \$3,759 | \$3,970 | \$3,650 | \$11,326 | \$10,873 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|   |    |      |      |      |      |   |
|---|----|------|------|------|------|---|
| Pre-tax operating margin (a)  | 26 | % 30 | % 27 | % 26 | % 22 | % |
| 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) | 29 | % 32 | % 29 | % 29 | % 29 | % |
| (a) Income before taxes divided by total revenue.   |    |      |      |      |      |   |

BNY Mellon 53

---

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

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

|  |       |   |
|--|-------|---|
| Effective tax rate<br>(dollars in millions)  | 3Q13  |   |
| Benefit for income taxes – GAAP  | \$(2  | ) |
| Less: Impact of the partial reconsideration of a U.S. Tax Court decision disallowing certain foreign tax credits | 261   |   |
| Provision for income taxes – Non-GAAP  | \$259 |   |
| Income before taxes – GAAP   | \$986 |   |
| Effective tax rate – GAAP  | —     | % |
| Effective tax rate – Operating basis – Non-GAAP  | 26.3  | % |

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

| Return on common equity and tangible common equity<br>(dollars in millions)   | 3Q13     | 2Q13     | 3Q12     | YTD13    | YTD12    |   |
|---|----------|----------|----------|----------|----------|---|
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP  | \$967    | \$833    | \$720    | \$1,534  | \$1,805  |   |
| Add: Amortization of intangible assets, net of tax  | 52       | 59       | 60       | 167      | 182      |   |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets – Non-GAAP  | 1,019    | 892      | 780      | 1,701    | 1,987    |   |
| Add: M&I, litigation and restructuring charges  | 12       | 8        | 18       | 44       | 308      |   |
| (Benefit) net charge related to the disallowance of certain foreign tax credits   | (261 )   | —        | —        | 593      | —        |   |
| 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 (benefit) net charge related to the disallowance of certain foreign tax credits – Non-GAAP | \$770    | \$900    | \$798    | \$2,338  | \$2,295  |   |
| Average common shareholders' equity   | \$34,264 | \$34,467 | \$34,522 | \$34,541 | \$34,123 |   |
| Less: Average goodwill  | 17,975   | 17,957   | 17,918   | 17,975   | 17,941   |   |
| Average intangible assets   | 4,569    | 4,661    | 4,926    | 4,662    | 5,023    |   |
| Add: Deferred tax liability – tax deductible goodwill   | 1,262    | 1,200    | 1,057    | 1,262    | 1,057    |   |
| Deferred tax liability – non-tax deductible intangible assets   | 1,242    | 1,269    | 1,339    | 1,242    | 1,339    |   |
| Average tangible common shareholders' equity – Non-GAAP   | \$14,224 | \$14,318 | \$14,074 | \$14,408 | \$13,555 |   |
| Return on common equity – GAAP (a)  | 11.2     | %9.7     | %8.3     | %5.9     | %7.1     | % |
| Return on common equity excluding amortization of intangible assets, M&I, litigation and restructuring charges and the (benefit) net charge related to the disallowance of certain foreign tax credits – Non-GAAP (a)   | 8.9      | %10.5    | %9.2     | %9.0     | %9.0     | % |
| Return on tangible common equity – Non-GAAP (a)   | 28.4     | %25.0    | %22.1    | %15.8    | %19.6    | % |
|   | 21.5     | %25.2    | %22.5    | %21.7    | %22.6    | % |

Return on tangible common equity excluding M&I, litigation and restructuring charges and the (benefit) net charge related to the disallowance of certain foreign tax credits – Non-GAAP (a)

(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<br>(in millions) | 3Q13 | 2Q13 | 3Q12 | YTD13 | YTD12 |
|--|------|------|------|-------|-------|
| Income from consolidated investment management funds   | \$32 | \$65 | \$47 | \$147 | \$147 |
| Less: Net income attributable to noncontrolling interests of consolidated investment management funds  | 8    | 39   | 25   | 63    | 65    |
| Income from consolidated investment management funds, net of noncontrolling interests                  | \$24 | \$26 | \$22 | \$84  | \$82  |

54 BNY Mellon

---

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

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) | 3Q13 | 2Q13 | 3Q12 | YTD13 | YTD12 |
| Investment management fees  | \$20 | \$20 | \$20 | \$60  | \$62  |
| Other (Investment income)   | 4    | 6    | 2    | 24    | 20    |
| Income from consolidated investment management funds, net of noncontrolling interests               | \$24 | \$26 | \$22 | \$84  | \$82  |

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

|  |                |               |               |                |   |
|--|----------------|---------------|---------------|----------------|---|
| Equity to assets and book value per common share (dollars in millions, unless otherwise noted) | Sept. 30, 2013 | June 30, 2013 | Dec. 31, 2012 | Sept. 30, 2012 |   |
| BNY Mellon shareholders' equity at period end – GAAP   | \$36,959       | \$35,882      | \$36,431      | \$36,218       |   |
| Less: Preferred stock  | 1,562          | 1,562         | 1,068         | 1,036          |   |
| BNY Mellon common shareholders' equity at period end – GAAP                                    | 35,397         | 34,320        | 35,363        | 35,182         |   |
| Less: Goodwill   | 18,025         | 17,919        | 18,075        | 17,984         |   |
| Intangible assets  | 4,527          | 4,588         | 4,809         | 4,882          |   |
| Add: Deferred tax liability – tax deductible goodwill  | 1,262          | 1,200         | 1,130         | 1,057          |   |
| Deferred tax liability – non-tax deductible intangible assets                                  | 1,242          | 1,269         | 1,310         | 1,339          |   |
| Tangible BNY Mellon shareholders' equity at period end – Non-GAAP                              | \$15,349       | \$14,282      | \$14,919      | \$14,712       |   |
| Total assets at period end – GAAP  | \$371,952      | \$360,505     | \$358,990     | \$339,944      |   |
| Less: Assets of consolidated investment management funds                                       | 11,691         | 11,471        | 11,481        | 11,369         |   |
| Subtotal assets of operations – Non-GAAP   | 360,261        | 349,034       | 347,509       | 328,575        |   |
| Less: Goodwill   | 18,025         | 17,919        | 18,075        | 17,984         |   |
| Intangible assets  | 4,527          | 4,588         | 4,809         | 4,882          |   |
| Cash on deposit with the Federal Reserve and other central banks (a)                           | 96,316         | 78,671        | 90,040        | 73,037         |   |
| Tangible total assets of operations at period end – Non-GAAP                                   | \$241,393      | \$247,856     | \$234,585     | \$232,672      |   |
| BNY Mellon shareholders' equity to total assets – GAAP   | 9.9            | % 10.0        | % 10.1        | % 10.7         | % |
| BNY Mellon common shareholders' equity to total assets – GAAP                                  | 9.5            | % 9.5         | % 9.9         | % 10.3         | % |
| Tangible BNY Mellon common shareholders' equity to tangible assets of operations – Non-GAAP    | 6.4            | % 5.8         | % 6.4         | % 6.3          | % |
| Period end common shares outstanding (in thousands)  | 1,148,522      | 1,150,477     | 1,163,490     | 1,168,607      |   |
| Book value per common share  | \$30.82        | \$29.83       | \$30.39       | \$30.11        |   |
| Tangible book value per common share – Non-GAAP  | \$13.36        | \$12.41       | \$12.82       | \$12.59        |   |

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

BNY Mellon 55

---

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

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)   | Sept. 30,<br>2013 | June 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30,<br>2012 |   |
|---|-------------------|------------------|------------------|-------------------|---|
| Total Tier 1 capital – Basel I  | \$18,074          | \$16,951         | \$16,694         | \$16,797          |   |
| Less: Trust preferred securities                                      | 324               | 303              | 623              | 1,173             |   |
| Preferred stock   | 1,562             | 1,562            | 1,068            | 1,036             |   |
| Total Tier 1 common equity  | \$16,188          | \$15,086         | \$15,003         | \$14,588          |   |
| <br>  |                   |                  |                  |                   |   |
| Total risk-weighted assets – Basel I                                  | \$114,404         | \$114,511        | \$111,180        | \$109,867         |   |
| <br>  |                   |                  |                  |                   |   |
| Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP | 14.2              | % 13.2           | % 13.5           | % 13.3            | % |

(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)                                     | Sept. 30,<br>2013 | June 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30,<br>2012 |   |
|---|-------------------|------------------|------------------|-------------------|---|
| Total Tier 1 capital – Basel I                            | \$18,074          | \$16,951         | \$16,694         | \$16,797          |   |
| Adjustment to determine Basel III Tier 1 common equity:   |                   |                  |                  |                   |   |
| Deferred tax liability – tax deductible intangible assets | 82                | 81               | 78               | N/A               |   |
| Preferred stock   | (1,562)           | ) (1,562)        | ) (1,068)        | ) (1,036)         | ) |
| Trust preferred securities                                | (324)             | ) (303)          | ) (623)          | ) (1,173)         | ) |
| Other comprehensive income (loss):                        |                   |                  |                  |                   |   |
| Securities available-for-sale                             | 487               | 560              | 1,350            | 1,448             |   |
| Pension liabilities                                       | (1,348)           | ) (1,379)        | ) (1,453)        | ) (1,346)         | ) |
| Total other comprehensive income (loss)                   | (861)             | ) (819)          | ) (103)          | ) 102             | ) |
| Equity method investments                                 | (479)             | ) (500)          | ) (501)          | ) (571)           | ) |
| Net pension fund assets                                   | (279)             | ) (268)          | ) (249)          | ) (43)            | ) |
| Deferred tax assets                                       | (26)              | ) (26)           | ) (47)           | ) (46)            | ) |
| Other   | 18                | 23               | 18               | 19                |   |
| Total estimated Basel III Tier 1 common equity            | \$14,643          | \$13,577         | \$14,199         | \$14,049          |   |

Under the Standardized Approach:

|  |           |           |     |     |
|--|-----------|-----------|-----|-----|
| Total risk-weighted assets – Basel I           | \$114,404 | \$114,511 | N/A | N/A |
| Add: Adjustments (b)                           | 31,185    | 31,330    | N/A | N/A |
| Total estimated Basel III risk-weighted assets | \$145,589 | \$145,841 | N/A | N/A |

Estimated Basel III Tier 1 common equity ratio – Non-GAAP calculated under the Standardized Approach 10.1 % 9.3 % N/A N/A

Under the Advanced Approach:

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Total risk-weighted assets – Basel I           | \$114,404 | \$114,511 | \$111,180 | \$109,867 |
| Add: Adjustments (b)                           | 17,179    | 23,793    | 33,104    | 41,816    |
| Total estimated Basel III risk-weighted assets | \$131,583 | \$138,304 | \$144,284 | \$151,683 |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|   |      |      |      |      |   |
|---|------|------|------|------|---|
| Estimated Basel III Tier 1 common equity ratio – Non-GAAP<br>calculated under the Advanced Approach | 11.1 | %9.8 | %9.8 | %9.3 | % |
|---|------|------|------|------|---|

(a) At Sept. 30, 2013 and June 30, 2013, the estimated Basel III Tier 1 common equity ratio is based on our interpretation of and expectations regarding the Final Capital Rules released by the Federal Reserve on July 2, 2013, on a fully phased-in basis. For periods prior to June 30, 2013, these ratios were estimated using our interpretation of the NPRs dated June 7, 2012, on a fully phased-in basis.

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 (b) 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 the use of internal credit models and parameters as well as an adjustment for operational risk.

N/A – Not applicable.

56 BNY Mellon

---



## Recent accounting and regulatory developments

### Proposed Accounting Standards

#### Proposed ASU - Revenue from Contracts with Customers

In June 2010, the Financial Accounting Standards Board (“FASB”) issued a proposed Accounting Standards Update (“ASU”), “Revenue from Contracts with Customers.” This proposed ASU is the result of a joint project of the FASB and the International Accounting Standards Board (“IASB”) to clarify the principles for recognizing revenue and develop a common standard for U.S. GAAP and International Financial Reporting Standards (“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 fourth quarter 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 deconsolidate 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 2014.

#### Proposed ASU - Leases

In May 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 the most significant aspects of the FASB's and IASB's accounting for lease contracts. Comments on this proposed ASU were due in

BNY Mellon 57

---

September 2013. A final standard is expected to 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 OTTI 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 were due in August 2013.

58 BNY Mellon

---

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 ASU would be applied retrospectively. Early adoption would be permitted. The effective date will be determined after the FASB Emerging Issues Task Force considers feedback on the proposed ASU. Comments were due in June 2013. A final ASU is expected to be issued during the fourth quarter of 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

IFRS are a set of standards and interpretations adopted by the IASB. 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 United States.

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.

BNY Mellon 59

---

## 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 (the “2013 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 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 the Final Capital Rules revising the capital framework applicable to U.S. BHCs and banks. The Final Capital 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 Capital 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 Capital 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 Capital 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 Capital 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.

60 BNY Mellon

---



Under the Final Capital 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 Capital 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 Capital Rules establish revised "well-capitalized" thresholds for insured depository institutions under the federal banking agencies' prompt corrective action framework of:

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

At Sept. 30, 2013, BNY Mellon's Basel I Tier 1 capital to risk-adjusted assets and Total capital to risk-adjusted assets ratios were 15.8% and 16.8%, respectively; and our estimated Basel III Tier 1 common equity ratio (Non-GAAP) was 10.1%, on a fully phased-in basis. For additional information on capital ratios, see "Capital".

The Final Capital Rules differ, in limited respects, from the 2012 proposed rules. For BNY Mellon, the most notable changes or clarifications in the Final Capital 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 Capital Rules clarify the computation date for trust preferred securities. The Final Capital 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 Sept. 30, 2013, BNY Mellon had \$324 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 Capital 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 Capital 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

BNY Mellon 61

---

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 Capital 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 Sept. 30, 2013, the Basel I leverage ratio for The Bank of New York Mellon Corporation was 5.6% and our primary banking subsidiary, The Bank of New York Mellon, was 5.3%.

#### Proposed Rulemaking Concerning Implementation of Minimum Liquidity Standards

On Oct. 24, 2013 the Federal Reserve approved a notice of proposed rulemaking developed jointly with the OCC and FDIC regarding the U.S. implementation of the Basel III liquidity coverage ratio (the “LCR Notice”). Historically, regulation and monitoring of bank and BHC liquidity have been addressed as a supervisory matter, both in the U.S. and internationally, without required formulaic measures. The LCR Notice would establish a quantitative liquidity coverage ratio requirement for certain banking organizations, including BNY Mellon, designed to ensure that such organizations maintain an adequate level of unencumbered high-quality liquid assets equal to the entity’s expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario. In the LCR Notice, the Federal Reserve indicates that the proposed U.S. liquidity coverage ratio is more stringent than the Basel committee proposal in certain elements, including the eligibility of high quality liquid assets and implementation timelines. This proposal is expected to be open for comment until Jan. 31, 2014.

The LCR Notice contains a graduated transition period for implementation. Starting on Jan. 1, 2015, covered companies would be required to meet a liquidity coverage ratio of 80% percent, increasing annually by 10% increments until Jan. 1, 2017, at which time covered companies would be required to meet a liquidity coverage ratio of 100%.

In addition, the Federal Reserve stated that the Basel Committee is completing work on calibration of a net stable funding ratio ("NSFR"), which establishes a complementary one-year liquidity standard. The

62 BNY Mellon

---

Federal Reserve expects to issue a proposal regarding implementation of this one-year measure after completion of the Basel Committee's work, and in advance of the NSFR's effective date of January 2018.

#### European Central Bank Comprehensive Assessments

On Oct. 23, 2013, the European Central Bank ("ECB") indicated that certain credit institutions, which due to their size and systemic characteristics fall under direct supervision by the ECB, will undergo a comprehensive assessment, including a balance sheet assessment, according to regulations establishing the single supervisory mechanism, which will enter into force during November 2013. The Bank of New York Mellon SA/NV, our Belgian banking subsidiary, is included in this exercise.

This assessment is designed to address the relevant factors influencing the risk profile of The Bank of New York Mellon SA/NV. The assessment is expected to consist of a supervisory risk assessment to review, quantitatively and qualitatively, key risks, including liquidity, leverage and funding, an asset quality review designed to enhance the transparency of bank exposures by reviewing the quality of bank assets, including the adequacy of asset and collateral valuation and related provisions, and a stress test to examine the resilience of banks' balance sheet to stress scenarios. It will be conducted by the ECB in cooperation with appropriate national supervisory authorities, with the assistance of private sector consultants and auditors. It is scheduled to begin during November 2013 and conclude in November 2014.

#### Website information

Our website is [www.bnymellon.com](http://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](mailto: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.



## Item 1. Financial Statements

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

## Consolidated Income Statement (unaudited)

| (in millions)  | Quarter ended     |                  |                   | Year-to-date      |                   |
|--|-------------------|------------------|-------------------|-------------------|-------------------|
|  | Sept. 30,<br>2013 | June 30,<br>2013 | Sept. 30,<br>2012 | Sept. 30,<br>2013 | Sept. 30,<br>2012 |
| Fee and other revenue  |                   |                  |                   |                   |                   |
| Investment services fees:  |                   |                  |                   |                   |                   |
| Asset servicing  | \$964             | \$988            | \$942             | \$2,921           | \$2,835           |
| Issuer services  | 322               | 294              | 311               | 853               | 837               |
| Clearing services  | 315               | 321              | 287               | 940               | 899               |
| Treasury services  | 137               | 139              | 138               | 417               | 408               |
| Total investment services fees   | 1,738             | 1,742            | 1,678             | 5,131             | 4,979             |
| Investment management and performance fees   | 821               | 848              | 779               | 2,491             | 2,321             |
| Foreign exchange and other trading revenue   | 160               | 207              | 182               | 528               | 553               |
| Distribution and servicing   | 43                | 45               | 48                | 137               | 140               |
| Financing-related fees   | 44                | 44               | 46                | 129               | 127               |
| Investment and other income  | 135               | 269              | 124               | 476               | 311               |
| Total fee revenue  | 2,941             | 3,155            | 2,857             | 8,892             | 8,431             |
| Net securities gains—including other-than-temporary impairment   | 24                | 35               | 45                | 107               | 167               |
| Noncredit-related gains on securities not expected to be sold (recognized in other comprehensive income) | 2                 | 3                | 23                | 5                 | 55                |
| Net securities gains   | 22                | 32               | 22                | 102               | 112               |
| Total fee and other revenue  | 2,963             | 3,187            | 2,879             | 8,994             | 8,543             |
| Operations of consolidated investment management funds   |                   |                  |                   |                   |                   |
| Investment income  | 134               | 159              | 151               | 439               | 456               |
| Interest of investment management fund note holders  | 102               | 94               | 104               | 292               | 309               |
| Income from consolidated investment management funds   | 32                | 65               | 47                | 147               | 147               |
| Net interest revenue   |                   |                  |                   |                   |                   |
| Interest revenue   | 855               | 836              | 877               | 2,506             | 2,664             |
| Interest expense   | 83                | 79               | 128               | 258               | 416               |
| Net interest revenue   | 772               | 757              | 749               | 2,248             | 2,248             |
| Provision for credit losses  | 2                 | (19)             | (5)               | (41)              | (19)              |
| Net interest revenue after provision for credit losses   | 770               | 776              | 754               | 2,289             | 2,267             |
| Noninterest expense  |                   |                  |                   |                   |                   |
| Staff  | 1,516             | 1,509            | 1,436             | 4,497             | 4,304             |
| Professional, legal and other purchased services   | 296               | 317              | 292               | 908               | 900               |
| Net occupancy  | 153               | 159              | 149               | 475               | 437               |
| Software   | 147               | 157              | 127               | 444               | 373               |
| Distribution and servicing   | 108               | 111              | 109               | 325               | 313               |
| Furniture and equipment  | 79                | 81               | 81                | 248               | 249               |
| Business development   | 63                | 90               | 60                | 221               | 187               |
| Sub-custodian  | 71                | 77               | 65                | 212               | 205               |
| Other  | 249               | 215              | 265               | 771               | 739               |
| Amortization of intangible assets  | 81                | 93               | 95                | 260               | 288               |
| Merger and integration, litigation and restructuring charges   | 16                | 13               | 26                | 68                | 513               |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|   |       |       |       |         |         |
|---|-------|-------|-------|---------|---------|
| Total noninterest expense   | 2,779 | 2,822 | 2,705 | 8,429   | 8,508   |
| Income  |       |       |       |         |         |
| Income before income taxes  | 986   | 1,206 | 975   | 3,001   | 2,449   |
| (Benefit) provision for income taxes  | (2 )  | 321   | 225   | 1,365   | 572     |
| Net income  | 988   | 885   | 750   | 1,636   | 1,877   |
| Net (income) attributable to noncontrolling interests<br>(includes \$(8), \$(39), \$(25), \$(63) and \$(65) related to<br>consolidated investment management funds, respectively) | (8 )  | (40 ) | (25 ) | (64 )   | (67 )   |
| Net income applicable to shareholders of The Bank of<br>New York Mellon Corporation   | 980   | 845   | 725   | 1,572   | 1,810   |
| Preferred stock dividends   | (13 ) | (12 ) | (5 )  | (38 )   | (5 )    |
| Net income applicable to common shareholders of The<br>Bank of New York Mellon Corporation  | \$967 | \$833 | \$720 | \$1,534 | \$1,805 |

64 BNY Mellon

---



## Consolidated Income Statement (unaudited) (continued)

Net income applicable to common shareholders of The Bank of New York Mellon Corporation used for the earnings per share calculation

| (in millions)   | Quarter ended  |               |                | Year-to-date   |                |
|---|----------------|---------------|----------------|----------------|----------------|
|   | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 | Sept. 30, 2013 | Sept. 30, 2012 |
| Net income applicable to common shareholders of The Bank of New York Mellon Corporation   | \$967          | \$833         | \$720          | \$1,534        | \$1,805        |
| Less: Earnings allocated to participating securities  | 18             | 15            | 11             | 27             | 26             |
| Change in the excess of redeemable value over the fair value of noncontrolling interests  | —              | —             | —              | 1              | (5 )           |
| Net income applicable to the common shareholders of The Bank of New York Mellon Corporation after required adjustments for the calculation of basic and diluted earnings per common share | \$949          | \$818         | \$709          | \$1,506        | \$1,784        |

Average common shares and equivalents outstanding of The Bank of New York Mellon Corporation

| (in thousands)                 | Quarter ended  |               |                | Year-to-date   |                |
|--------------------------------|----------------|---------------|----------------|----------------|----------------|
|                                | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 | Sept. 30, 2013 | Sept. 30, 2012 |
| Basic                          | 1,148,724      | 1,152,545     | 1,169,674      | 1,153,327      | 1,181,614      |
| Common stock equivalents       | 17,236         | 15,589        | 11,222         | 16,242         | 10,031         |
| Less: Participating securities | (13,281 )      | (12,153 )     | (9,362 )       | (12,618 )      | (8,336 )       |
| Diluted                        | 1,152,679      | 1,155,981     | 1,171,534      | 1,156,951      | 1,183,309      |
| Anti-dilutive securities (a)   | 58,735         | 78,825        | 90,785         | 77,758         | 91,862         |

Earnings per share applicable to the common shareholders of The Bank of New York Mellon Corporation (b)

| (in dollars) | Quarter ended  |               |                | Year-to-date   |                |
|--------------|----------------|---------------|----------------|----------------|----------------|
|              | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 | Sept. 30, 2013 | Sept. 30, 2012 |
| Basic        | \$0.83         | \$0.71        | \$0.61         | \$1.31         | \$1.51         |
| Diluted      | \$0.82         | \$0.71        | \$0.61         | \$1.30         | \$1.51         |

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

(b) Basic and diluted earnings per share under the two-class method are determined on the net income applicable to 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     |                  |                   | Year-to-date      |                   |
|---|-------------------|------------------|-------------------|-------------------|-------------------|
|   | Sept. 30,<br>2013 | June 30,<br>2013 | Sept. 30,<br>2012 | Sept. 30,<br>2013 | Sept. 30,<br>2012 |
| Net income  | \$988             | \$885            | \$750             | \$1,636           | \$1,877           |
| Other comprehensive income, net of tax:   |                   |                  |                   |                   |                   |
| Foreign currency translation adjustments  | 385               | 5                | 169               | 81                | 76                |
| Unrealized gain (loss) on assets available-for-sale:  |                   |                  |                   |                   |                   |
| Unrealized gain (loss) arising during the period  | (72 )             | (736 )           | 638               | (814 )            | 1,072             |
| Reclassification adjustment   | (2 )              | (17 )            | (15 )             | (49 )             | (74 )             |
| Total unrealized gain (loss) on assets available-for-sale   | (74 )             | (753 )           | 623               | (863 )            | 998               |
| Defined benefit plans:  |                   |                  |                   |                   |                   |
| Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost | 31                | 31               | 28                | 105               | 79                |
| Total defined benefit plans   | 31                | 31               | 28                | 105               | 79                |
| Net unrealized gain (loss) on cash flow hedges  | 12                | (9 )             | 1                 | 4                 | 4                 |
| Total other comprehensive income (loss), net of tax (a)   | 354               | (726 )           | 821               | (673 )            | 1,157             |
| Net (income) attributable to noncontrolling interests   | (8 )              | (40 )            | (25 )             | (64 )             | (67 )             |
| Other comprehensive (income) attributable to noncontrolling interests                                       | (42 )             | (10 )            | (12 )             | (23 )             | (1 )              |
| Net comprehensive income  | \$1,292           | \$109            | \$1,534           | \$876             | \$2,966           |

Other comprehensive income (loss) attributable to The Bank of New York Mellon Corporation shareholders was \$312 million for the quarter ended Sept. 30, 2013, \$(736) million for the quarter ended June 30, 2013, \$809 million (a) for the quarter ended Sept. 30, 2012, \$(696) million for the nine months ended Sept. 30, 2013 and \$1,156 million for the nine months ended Sept. 30, 2012.

See accompanying Notes to Consolidated Financial Statements.

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

## Consolidated Balance Sheet (unaudited)

|  | Sept. 30,<br>2013 | Dec. 31,<br>2012 |
|--|-------------------|------------------|
| (dollars in millions, except per share amounts)  |                   |                  |
| Assets   |                   |                  |
| Cash and due from:   |                   |                  |
| Banks  | \$7,304           | \$4,727          |
| Interest-bearing deposits with the Federal Reserve and other central banks   | 95,519            | 90,110           |
| Interest-bearing deposits with banks   | 41,390            | 43,910           |
| Federal funds sold and securities purchased under resale agreements  | 9,191             | 6,593            |
| Securities:  |                   |                  |
| Held-to-maturity (fair value of \$20,300 and \$8,389)  | 20,358            | 8,205            |
| Available-for-sale   | 77,099            | 92,619           |
| Total securities   | 97,457            | 100,824          |
| Trading assets   | 12,101            | 9,378            |
| Loans  | 50,138            | 46,629           |
| Allowance for loan losses  | (206 )            | (266 )           |
| Net loans  | 49,932            | 46,363           |
| Premises and equipment   | 1,569             | 1,659            |
| Accrued interest receivable  | 545               | 593              |
| Goodwill   | 18,025            | 18,075           |
| Intangible assets  | 4,527             | 4,809            |
| Other assets (includes \$1,570 and \$1,321, at fair value)   | 22,701            | 20,468           |
| Subtotal assets of operations  | 360,261           | 347,509          |
| Assets of consolidated investment management funds, at fair value:   |                   |                  |
| Trading assets   | 10,725            | 10,961           |
| Other assets   | 966               | 520              |
| Subtotal assets of consolidated investment management funds, at fair value   | 11,691            | 11,481           |
| Total assets   | \$371,952         | \$358,990        |
| Liabilities  |                   |                  |
| Deposits:  |                   |                  |
| Noninterest-bearing (principally U.S. offices)   | \$87,303          | \$93,019         |
| Interest-bearing deposits in U.S. offices  | 58,505            | 53,826           |
| Interest-bearing deposits in Non-U.S. offices  | 109,752           | 99,250           |
| Total deposits   | 255,560           | 246,095          |
| Federal funds purchased and securities sold under repurchase agreements  | 9,737             | 7,427            |
| Trading liabilities  | 9,022             | 8,176            |
| Payables to customers and broker-dealers   | 15,293            | 16,095           |
| Commercial paper   | 1,851             | 338              |
| Other borrowed funds   | 844               | 1,380            |
| Accrued taxes and other expenses   | 6,467             | 7,316            |
| Other liabilities (including allowance for lending-related commitments of \$133 and \$121, also includes \$443 and \$704, at fair value) | 5,848             | 6,010            |
| Long-term debt (includes \$326 and \$345, at fair value)   | 18,889            | 18,530           |
| Subtotal liabilities of operations   | 323,511           | 311,367          |
| Liabilities of consolidated investment management funds, at fair value:  |                   |                  |
| Trading liabilities  | 10,380            | 10,152           |
| Other liabilities  | 78                | 29               |
| Subtotal liabilities of consolidated investment management funds, at fair value  | 10,458            | 10,181           |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|   |           |           |
|---|-----------|-----------|
| Total liabilities   | 333,969   | 321,548   |
| Temporary equity  |           |           |
| Redeemable noncontrolling interests   | 203       | 178       |
| Permanent equity  |           |           |
| Preferred stock - par value \$0.01 per share; authorized 100,000,000 shares; issued 15,826 and 10,826 shares              | 1,562     | 1,068     |
| Common stock – par value \$0.01 per share; authorized 3,500,000,000 shares; issued 1,264,234,315 and 1,254,182,209 shares | 13        | 13        |
| Additional paid-in capital  | 23,903    | 23,485    |
| Retained earnings   | 15,639    | 14,622    |
| Accumulated other comprehensive loss, net of tax  | (1,339 )  | (643 )    |
| Less: Treasury stock of 115,712,764 and 90,691,868 common shares, at cost   | (2,819 )  | (2,114 )  |
| Total The Bank of New York Mellon Corporation shareholders' equity  | 36,959    | 36,431    |
| Nonredeemable noncontrolling interests of consolidated investment management funds  | 821       | 833       |
| Total permanent equity  | 37,780    | 37,264    |
| Total liabilities, temporary equity and permanent equity  | \$371,952 | \$358,990 |
| See accompanying Notes to Consolidated Financial Statements.  |           |           |

BNY Mellon 67

---

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

## Consolidated Statement of Cash Flows (unaudited)

| (in millions)  | Nine months ended Sept. 30, |           |
|--|-----------------------------|-----------|
|  | 2013                        | 2012      |
| Operating activities   |                             |           |
| Net income   | \$1,636                     | \$1,877   |
| Net (income) attributable to noncontrolling interests  | (64                         | ) (67     |
| Net income applicable to shareholders of The Bank of New York Mellon Corporation             | 1,572                       | 1,810     |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                             |           |
| Provision for credit losses  | (41                         | ) (19     |
| Pension plan contribution  | (30                         | ) (31     |
| Depreciation and amortization  | 1,051                       | 911       |
| Deferred tax expense (benefit)   | 315                         | (87       |
| Net securities (gains) and venture capital (income)  | (103                        | ) (117    |
| Change in trading activities   | (1,866                      | ) (1,646  |
| Change in accruals and other, net  | (953                        | ) 452     |
| Net cash (used for) provided by operating activities   | (55                         | ) 1,273   |
| Investing activities   |                             |           |
| Change in interest-bearing deposits with banks   | 3,997                       | (4,324    |
| Change in interest-bearing deposits with the Federal Reserve and other central banks         | (5,409                      | ) 17,125  |
| Purchases of securities held-to-maturity   | (6,737                      | ) (3,477  |
| Paydowns of securities held-to-maturity  | 1,107                       | 490       |
| Maturities of securities held-to-maturity  | 31                          | 549       |
| Purchases of securities available-for-sale   | (19,787                     | ) (37,158 |
| Sales of securities available-for-sale   | 14,824                      | 6,180     |
| Paydowns of securities available-for-sale  | 7,854                       | 7,253     |
| Maturities of securities available-for-sale  | 2,339                       | 6,011     |
| Net change in loans  | (3,586                      | ) (1,878  |
| Sales of loans and other real estate   | 104                         | 176       |
| Change in federal funds sold and securities purchased under resale agreements                | (2,598                      | ) (1,243  |
| Change in seed capital investments   | (144                        | ) 64      |
| Purchases of premises and equipment/capitalized software                                     | (372                        | ) (453    |
| Proceeds from the sale of premises and equipment   | —                           | 5         |
| Acquisitions, net of cash  | (17                         | ) (7      |
| Dispositions, net cash   | 84                          | —         |
| Other, net   | (227                        | ) 312     |
| Net cash (used for) investing activities   | (8,537                      | ) (10,375 |
| Financing activities   |                             |           |
| Change in deposits   | 8,741                       | 3,327     |
| Change in federal funds purchased and securities sold under repurchase agreements            | 2,310                       | 6,183     |
| Change in payables to customers and broker-dealers   | (802                        | ) 1,004   |
| Change in other borrowed funds   | (541                        | ) (1,013  |
| Change in commercial paper   | 1,513                       | 1,268     |
| Net proceeds from the issuance of long-term debt   | 2,696                       | 1,264     |
| Repayments of long-term debt   | (1,928                      | ) (1,768  |
| Proceeds from the exercise of stock options  | 171                         | 9         |
| Issuance of preferred stock  | 494                         | 1,036     |
| Issuance of common stock   | 19                          | 19        |

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

|  |         |   |         |   |
|--|---------|---|---------|---|
| Treasury stock acquired                                      | (705    | ) | (976    | ) |
| Common cash dividends paid                                   | (505    | ) | (469    | ) |
| Preferred cash dividends paid                                | (38     | ) | (5      | ) |
| Other, net   | (181    | ) | 27      |   |
| Net cash provided by financing activities                    | 11,244  |   | 9,906   |   |
| Effect of exchange rate changes on cash                      | (75     | ) | 12      |   |
| Change in cash and due from banks                            |         |   |         |   |
| Change in cash and due from banks                            | 2,577   |   | 816     |   |
| Cash and due from banks at beginning of period               | 4,727   |   | 4,175   |   |
| Cash and due from banks at end of period                     | \$7,304 |   | \$4,991 |   |
| Supplemental disclosures                                     |         |   |         |   |
| Interest paid  | \$286   |   | \$405   |   |
| Income taxes paid  | 305     |   | 584     |   |
| Income taxes refunded  | 24      |   | 7       |   |
| See accompanying Notes to Consolidated Financial Statements. |         |   |         |   |

68 BNY Mellon

---

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

Consolidated Statement of Changes in Equity (unaudited)

| (in millions, except per share amounts)                       | The Bank of New York Mellon Corporation shareholders |              |                            |                   |  |            | Treasury stock | Non-redeemable noncontrolling interests of consolidated investment management funds | Total permanent equity | Redeemable non-controlling interests/ temporary equity |
|---|--|--------------|----------------------------|-------------------|--|------------|----------------|---|------------------------|--|
|   | Preferred stock                                      | Common stock | Additional paid-in capital | Retained earnings | Accumulated other comprehensive (loss), net of tax |            |                |   |                        |  |
| Balance at Dec. 31, 2012                                      | \$ 1,068   | \$ 13        | \$ 23,485                  | \$ 14,622         | \$ (643)   | \$ (2,114) | \$ 833         | \$ 37,264   | (a) \$ 178             |  |
| Shares issued to shareholders of noncontrolling interests     | —  | —            | —                          | —                 | —  | —          | —              | —   | 35                     |  |
| Redemption of subsidiary shares from noncontrolling interests | —  | —            | —                          | —                 | —  | —          | —              | —   | (28)                   |  |
| Other net changes in noncontrolling interests                 | —  | —            | 20                         | —                 | —  | —          | (95)           | (75)  | 14                     |  |
| Net income  | —  | —            | —                          | 1,572             | —  | —          | 63             | 1,635   | 1                      |  |
| Other comprehensive income (loss)                             | —  | —            | —                          | (12)              | (696)  | —          | 20             | (688)   | 3                      |  |
| Dividends:  |  |              |                            |                   |  |            |                |   |                        |  |
| Common stock at \$0.43 per share                              | —  | —            | —                          | (505)             | —  | —          | —              | (505)   | —                      |  |
| Preferred stock   | —  | —            | —                          | (38)              | —  | —          | —              | (38)  | —                      |  |
| Repurchase of common stock                                    | —  | —            | —                          | —                 | —  | (705)      | —              | (705)   | —                      |  |
| Common stock issued under:                                    |  |              |                            |                   |  |            |                |   |                        |  |
| Employee benefit plans  | —  | —            | 19                         | —                 | —  | —          | —              | 19  | —                      |  |
| Direct stock purchase and dividend reinvestment plan          | —  | —            | 15                         | —                 | —  | —          | —              | 15  | —                      |  |
| Preferred stock issued  | 494  | —            | —                          | —                 | —  | —          | —              | 494   | —                      |  |
| Stock awards and options exercised                            | —  | —            | 364                        | —                 | —  | —          | —              | 364   | —                      |  |
| Balance at Sept. 30, 2013                                     | \$ 1,562   | \$ 13        | \$ 23,903                  | \$ 15,639         | \$ (1,339)   | \$ (2,819) | \$ 821         | \$ 37,780   | (a) \$ 203             |  |

(a) Includes total The Bank of New York Mellon Corporation common shareholders' equity of \$35,363 million at Dec. 31, 2012 and \$35,397 million at Sept. 30, 2013.

See accompanying Notes to Consolidated Financial Statements.



BNY Mellon 69

---

Notes to Consolidated Financial Statements

Note 1 - Basis of presentation

Basis of presentation

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

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods have been made. These financial statements should be read in conjunction with BNY Mellon’s Annual Report on Form 10-K for the year ended Dec. 31, 2012. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with current period presentation.

Use of estimates

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

Note 2 - Accounting changes and new accounting guidance

ASU 2011-11 - Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU 2011-11, “Disclosures about Offsetting Assets and Liabilities”. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. See Note 17 “Derivative instruments” for our disclosure.

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

In July 2012, the FASB issued ASU 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment.” This guidance allows an entity an option to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired. If the intangible asset is impaired, an entity is required to perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired.

ASU 2013-02 - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This ASU requires the presentation of the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. See Note 14 "Other comprehensive income (loss)" for our disclosure.

70 BNY Mellon

---

Notes to Consolidated Financial Statements (continued)

Note 3 - Acquisitions and dispositions

We sometimes structure our acquisitions with both an initial payment and later contingent payments tied to post-closing revenue or income growth. For acquisitions completed prior to Jan. 1, 2009, we record the fair value of contingent payments as an additional cost of the entity acquired in the period that the payment becomes probable. For acquisitions completed after Jan. 1, 2009, subsequent changes in the fair value of a contingent consideration liability are recorded through the income statement. Contingent payments totaled \$13 million in the third quarter of 2013 and \$17 million in the first nine months of 2013.

At Sept. 30, 2013, we were potentially obligated to pay additional consideration which, using reasonable assumptions for the performance of the acquired companies and joint ventures based on contractual agreements, could range from \$0 million to \$11 million over the next nine months.

Dispositions in 2013

On May 31, 2013, BNY Mellon sold SourceNet Solutions, our accounts payable outsourcing support services provider that was part of our Investment Services business, for \$11 million. As a result of this sale, we recorded a pre-tax gain of \$2 million and an after-tax gain of \$10 million.

On Sept. 27, 2013, Newton Management Limited, together with Newton Investment Management Limited, an investment boutique of BNY Mellon, sold Newton's private client business, for \$120 million. As a result of this sale, we recorded a pre-tax gain of \$27 million and an after-tax gain of \$5 million. In addition, goodwill of \$69 million and customer relationship intangible assets of \$7 million were removed from the balance sheet as a result of this sale.

Acquisitions in 2012

On Oct 1, 2012, BNY Mellon acquired the remaining 50% interest of the WestLB Mellon Asset Management joint venture for cash of \$22 million, plus a contingent payment of \$13 million which was paid in August 2013, upon the occurrence of certain events. We later renamed the unit Meriten Investment Management GmbH. Goodwill related to this acquisition totaled \$70 million and is included in our Investment Management business. This goodwill is not deductible for tax purposes. Customer relationship intangible assets related to this acquisition are included in our Investment Management business, with a life of eight years, and totaled \$23 million.

## Notes to Consolidated Financial Statements (continued)

## Note 4 - Securities

The following tables present the amortized cost, the gross unrealized gains and losses and the fair value of securities at Sept. 30, 2013 and Dec. 31, 2012.

| Securities at<br>Sept. 30, 2013<br>(in millions) | Amortized<br>cost | Gross<br>unrealized<br>Gains | Losses  | Fair<br>value |
|--|-------------------|------------------------------|---------|---------------|
| Available-for-sale:                              |                   |                              |         |               |
| U.S. Treasury                                    | \$10,730          | \$135                        | \$434   | \$10,431      |
| U.S. Government agencies                         | 1,067             | 18                           | 4       | 1,081         |
| State and political subdivisions                 | 6,737             | 70                           | 87      | 6,720         |
| Agency RMBS                                      | 26,817            | 334                          | 480     | 26,671        |
| Alt-A RMBS                                       | 231               | 37                           | 10      | 258           |
| Prime RMBS                                       | 533               | 5                            | 12      | 526           |
| Subprime RMBS                                    | 440               | 7                            | 39      | 408           |
| Other RMBS                                       | 2,306             | 41                           | 79      | 2,268         |
| Commercial MBS                                   | 2,524             | 70                           | 31      | 2,563         |
| Agency commercial MBS                            | 1,307             | 3                            | 21      | 1,289         |
| Asset-backed CLOs                                | 1,521             | 10                           | 3       | 1,528         |
| Other asset-backed securities                    | 2,501             | 5                            | 10      | 2,496         |
| Foreign covered bonds                            | 2,779             | 152                          | 76      | 2,855         |
| Corporate bonds                                  | 1,484             | 37                           | 17      | 1,504         |
| Other debt securities                            | 12,638            | 141                          | 11      | 12,768        |
| Equity securities                                | 17                | 6                            | —       | 23            |
| Money market funds                               | 941               | —                            | —       | 941           |
| Alt-A RMBS (b)                                   | 1,406             | 388                          | 2       | 1,792         |
| Prime RMBS (b)                                   | 697               | 154                          | 1       | 850           |
| Subprime RMBS (b)                                | 111               | 16                           | —       | 127           |
| Total securities available-for-sale              | 76,787            | 1,629                        | 1,317   | 77,099        |
| Held-to-maturity:                                |                   |                              |         |               |
| U.S. Treasury                                    | 3,324             | 35                           | 52      | 3,307         |
| U.S. Government agencies                         | 419               | —                            | 10      | 409           |
| State and political subdivisions                 | 54                | 1                            | —       | 55            |
| Agency RMBS                                      | 15,011            | 118                          | 137     | 14,992        |
| Alt-A RMBS                                       | 91                | 10                           | 3       | 98            |
| Prime RMBS                                       | 77                | 1                            | 1       | 77            |
| Subprime RMBS                                    | 28                | —                            | —       | 28            |
| Other RMBS                                       | 627               | 23                           | 39      | 611           |
| Commercial MBS                                   | 21                | —                            | 1       | 20            |
| Other securities                                 | 706               | —                            | 3       | 703           |
| Total securities held-to-maturity                | 20,358            | 188                          | 246     | 20,300        |
| Total securities                                 | \$97,145          | \$1,817                      | \$1,563 | \$97,399      |

(a) Includes \$10.6 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.

(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

Edgar Filing: Bank of New York Mellon Corp - Form 10-Q

| Securities at<br>Dec. 31, 2012<br>(in millions) | Amortized<br>cost | Gross<br>unrealized |        | Fair<br>value |
|---|-------------------|---------------------|--------|---------------|
|   |                   | Gains               | Losses |               |
| Available-for-sale:                             |                   |                     |        |               |
| U.S. Treasury                                   | \$17,539          | \$467               | \$3    | \$18,003      |
| U.S. Government agencies                        | 1,044             | 30                  | —      | 1,074         |
| State and political subdivisions                | 6,039             | 112                 | 29     | 6,122         |
| Agency RMBS                                     | 33,355            | 846                 | 8      | 34,193        |
| Alt-A RMBS                                      | 255               | 40                  | 16     | 279           |
| Prime RMBS                                      | 728               | 9                   | 9      | 728           |
| Subprime RMBS                                   | 508               | 6                   | 62     | 452           |
| Other RMBS                                      | 2,850             | 53                  | 109    | 2,794         |
| Commercial MBS                                  | 3,031             | 153                 | 45     | 3,139         |
| Asset-backed CLOs                               | 1,285             | 7                   | 10     | 1,282         |
| Other asset-backed securities                   | 2,123             | 11                  | 3      | 2,131         |
| Foreign covered bonds                           | 3,596             | 122                 | —      | 3,718         |
| Corporate bonds                                 | 1,525             | 63                  | 3      | 1,585         |
| Other debt securities                           | 11,516            | 276                 | —      | 11,792        |
| Equity securities                               | 23                | 4                   | —      | 27            |
| Money market funds                              | 2,190             | —                   | —      | 2,190         |
| Alt-A RMBS (b)                                  | 1,574             | 400                 | 4      | 1,970         |
| Prime RMBS (b)                                  | 833               | 177                 | —      | 1,010         |
| Subprime RMBS (b)                               | 113               | 17                  | —      | 130           |
| Total securities available-for-sale             | 90,127            | 2,793               | 301    | 92,619        |
| Held-to-maturity:                               |                   |                     |        |               |
| U.S. Treasury                                   | 1,011             | 59                  | —      | 1,070         |
| State and political subdivisions                | 67                | 2                   | —      | 69            |
| Agency RMBS                                     | 5,879             | 139                 | 1      | 6,017         |
| Alt-A RMBS                                      | 111               | 9                   | 6      | 114           |
| Prime RMBS                                      | 97                | 1                   | 1      | 97            |
| Subprime RMBS                                   | 28                | —                   | 1      | 27            |
| Other RMBS                                      | 983               | 36                  | 52     | 967           |
| Commercial MBS                                  | 26                | —                   | 1      | 25            |
| Other securities                                | 3                 | —                   | —      | 3             |
| Total securities held-to-maturity               | 8,205             | 246                 | 62     | 8,389         |
| Total securities                                | \$98,332          | \$3,039             | \$363  | \$101,008     |

(a) Includes \$9.4 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.

(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in 2011.

| Net securities gains (losses)<br>(in millions) | 3Q13 | 2Q13 | 3Q12 | YTD13 | YTD12 |
|--|------|------|------|-------|-------|
| Realized gross gains                           | \$29 | \$51 | \$32 | \$137 | \$216 |
| Realized gross losses                          | (4)  | (1)  | (4)  | (10)  | (9)   |
| Recognized gross impairments                   | (3)  | (18) | (6)  | (25)  | (95)  |
| Total net securities gains                     | \$22 | \$32 | \$22 | \$102 | \$112 |

72 BNY Mellon

---

## Notes to Consolidated Financial Statements (continued)

## Temporarily impaired securities

At Sept. 30, 2013, substantially all of the unrealized losses on the investment securities portfolio were attributable to an increase in interest rates and credit spreads widening since purchase. We do not intend to sell these securities and it is not more likely than not that we will have to sell these securities.

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

| Temporarily impaired securities at Sept. 30,<br>2013<br><br>(in millions) | Less than 12 months |                      | 12 months or more |                      | Total         |                      |
|---|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
|   | Fair<br>value       | Unrealized<br>losses | Fair<br>value     | Unrealized<br>losses | Fair<br>value | Unrealized<br>losses |
| Available-for-sale:   |                     |                      |                   |                      |               |                      |
| U.S. Treasury   | \$4,849             | \$434                | \$—               | \$—                  | \$4,849       | \$434                |
| U.S. Government agencies  | 97                  | 4                    | —                 | —                    | 97            | 4                    |
| State and political subdivisions  | 2,883               | 81                   | 139               | 6                    | 3,022         | 87                   |
| Agency RMBS   | 11,898              | 475                  | 84                | 5                    | 11,982        | 480                  |
| Alt-A RMBS  | 16                  | 9                    | 34                | 1                    | 50            | 10                   |
| Prime RMBS  | 113                 | 3                    | 180               | 9                    | 293           | 12                   |
| Subprime RMBS   | —                   | —                    | 384               | 39                   | 384           |                      |