

Bank of New York Mellon CORP
Form 10-Q
May 09, 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 March 31, 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

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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 March 31, 2013
Common Stock, \$0.01 par value	1,160,646,709

THE BANK OF NEW YORK MELLON CORPORATION

First Quarter of 2013 Form 10-Q
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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		
	March 31, 2013	Dec. 31, 2012	March 31, 2012
Results applicable to common shareholders of The Bank of New York Mellon Corporation:			
Net income (loss)	\$(266)	\$622	\$619
Basic EPS	(0.23)	0.53	0.52
Diluted EPS (a)	(0.23)	0.53	0.52
Fee and other revenue	\$2,844	\$2,850	\$2,838
Income from consolidated investment management funds	50	42	43
Net interest revenue	719	725	765
Total revenue	\$3,613	\$3,617	\$3,646
Return on common equity (annualized) (b)	N/M	7.1	% 7.4
Non-GAAP (b)	7.8	% 8.2	% 8.9
Return on tangible common equity (annualized) – Non-GAAP (b)	N/M	18.8	% 21.0
Non-GAAP adjusted (b)	18.5	% 19.7	% 23.0
Return on average assets (annualized)	N/M	0.74	% 0.83
Fee revenue as a percentage of total revenue excluding net securities gains	78	% 78	% 78
Annualized fee revenue per employee (based on average headcount) (in thousands)	\$229	\$227	\$233
Percentage of non-U.S. total revenue (c)	35	% 36	% 37
Pre-tax operating margin (b)	22	% 24	% 24
Non-GAAP adjusted (b)	26	% 27	% 30
Net interest margin (FTE)	1.11	% 1.09	% 1.32
Assets under management at period end (in billions) (d)	\$1,429	\$1,386	\$1,308
Assets under custody and/or administration at period end (in trillions) (e)(f)	\$26.3	\$26.3	\$25.7
Market value of securities on loan at period end (in billions) (f)(g)	\$244	\$237	\$256
Average common shares and equivalents outstanding (in thousands):			
Basic	1,158,819	1,161,212	1,193,931
Diluted (a)	1,158,819	1,163,753	1,195,558

Capital ratios:

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Estimated Basel III Tier 1 common equity ratio – Non-GAAP (b)(h)9.4		%	9.8	%	N/A	
Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP (b)	12.2	%(i)	13.5	%	13.9	%
Basel I Tier 1 capital ratio	13.6	%(i)	15.0	%	15.6	%
Basel I Total (Tier 1 plus Tier 2) capital ratio	14.7	%(i)	16.3	%	17.5	%
Basel I leverage capital ratio	5.2	%	5.3	%	5.6	%
BNY Mellon shareholders’ equity to total assets ratio (b)	10.0	%	10.1	%	11.3	%
BNY Mellon common shareholders’ equity to total assets ratio (b)	9.7	%	9.9	%	11.3	%
BNY Mellon tangible common shareholders’ equity to tangible assets of operations ratio – Non-GAAP (b)	5.9	%	6.4	%	6.5	%

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Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended		
	March 31, 2013	Dec. 31, 2012	March 31, 2012
Selected average balances:			
Interest-earning assets	\$265,754	\$270,215	\$236,331
Assets of operations	\$322,161	\$324,601	\$289,900
Total assets	\$333,664	\$335,995	\$301,344
Interest-bearing deposits	\$147,728	\$142,719	\$125,438
Noninterest-bearing deposits	\$70,337	\$79,987	\$66,613
Preferred stock	\$1,068	\$1,066	\$—
Total The Bank of New York Mellon Corporation common shareholders' equity	\$34,898	\$34,962	\$33,718
Other information at period end:			
Cash dividends per common share	\$0.13	\$0.13	\$0.13
Common dividend payout ratio	N/M	25	% 25
Common dividend yield (annualized)	1.9	% 2.0	% 2.2
Closing common stock price per common share	\$27.99	\$25.70	\$24.13
Market capitalization	\$32,487	\$29,902	\$28,780
Book value per common share – GAAP (b)	\$29.83	\$30.39	\$28.51
Tangible book value per common share – Non-GAAP (b)	\$12.47	\$12.82	\$11.17
Full-time employees	49,700	49,500	47,800
Common share outstanding (in thousands)	1,160,647	1,163,490	1,192,716
(a)	Diluted earnings per share for the three months ended March 31, 2013 was calculated using average basic shares. Adding back the dilutive shares would result in anti-dilution.		
(b)	See “Supplemental information – Explanation of Non-GAAP financial measures” beginning on page 48 for a calculation of these ratios.		
(c)	Includes fee revenue, net interest revenue and income of consolidated investment management funds, net of net income attributable to noncontrolling interests.		
(d)	Excludes securities lending cash management assets and assets managed in the Investment Services business. 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 March 31, 2013, \$1.1 trillion at Dec. 31, 2012 and \$1.2 trillion at March 31, 2012.		
(f)	Reflects revisions, which were not material, for prior periods as a result of our previously disclosed reviews of our AUC/A and our process for reporting information. See pages 4-5 of our 2012 Annual Report.		
(g)	Represents the total amount of securities on loan managed by the Investment Services business. Excludes securities on loan at CIBC Mellon.		
(h)	The Federal Reserve’s Notices of Proposed Rulemaking (“NPRs”) require the Tier 1 common equity ratio to be the lower of the ratio as calculated under the Standardized Approach or Advanced Approach. At March 31, 2013, this ratio was 9.4% under the Standardized Approach compared with 9.7% under the Advanced Approach. At Dec. 31, 2012, this ratio was higher under the Standardized Approach, and therefore was presented under the Advanced Approach. The estimated Basel III Tier 1 common equity ratio of 7.6% at March 31, 2012 was based on prior Basel III guidance and the proposed market risk rule.		
(i)	In the first quarter of 2013, BNY Mellon was required to implement the Basel II.5 – final market risk rule. Implementation of these rules resulted in an approximately 35-40 basis points decrease to the Basel I Tier I common equity to risk-weighted assets ratio, the Basel I Tier I capital ratio and the Basel I Total capital ratio. Prior		

period ratios were not impacted by the implementation.

N/A – Not applicable.

N/M – Not meaningful.

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Part I - Financial Information

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

General

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

Certain business terms used in this report are defined in the Glossary included in our Annual Report on Form 10-K for the year ended Dec. 31, 2012 ("2012 Annual Report").

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

How we reported results

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

Overview

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a global 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 36 countries and more than 100 markets. As of March 31, 2013, BNY Mellon had \$26.3 trillion in assets under custody and/or administration, and \$1.4 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create trade, hold, manage, service, distribute or restructure investments.

Key first quarter 2013 and subsequent events

ConvergEx

In early April 2013, ConvergEx, an entity in which BNY Mellon has a minority interest, completed a divestiture of its software platform business. As a result of the divestiture and other events, we anticipate recognizing an after-tax gain of approximately \$100 million on our investment in ConvergEx in the second quarter of 2013.

Sale of SourceNet Solutions

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At the end of the first quarter of 2013, BNY Mellon entered into an agreement to sell our SourceNet Solutions business. SourceNet Solutions is BNY Mellon's accounts payable outsourcing support services provider that operates as part of our Investment Services business. The closing is expected to take place during the second quarter of 2013. We anticipate recording an immaterial gain as a result of this sale.

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Capital plan and share repurchase program and dividend increase

In March 2013, BNY Mellon received confirmation that the Board of Governors of the Federal Reserve System (the “Federal Reserve”) did not object to our 2013 capital plan submitted in connection with the Federal Reserve’s Comprehensive Capital Analysis and Review (“CCAR”). The board of directors subsequently approved the repurchase of up to \$1.35 billion worth of common shares, a 16% increase from the prior year’s board authorization, and a 15% increase in BNY Mellon’s quarterly common stock dividend.

From April 1, 2013 through May 8, 2013, we repurchased 11.0 million common shares in the open market, at an average price of \$27.64 per common share for a total of \$304 million.

On April 9, 2013, The Bank of New York Mellon Corporation announced a 15% increase in the quarterly common stock dividend, from \$0.13 per share to \$0.15 per share. This cash dividend was paid to shareholders on May 7, 2013.

Agreement to sell Newton’s Private Client Business

On Feb. 27, 2013, Newton Management Limited, together with Newton Investment Management Limited, an investment boutique of BNY Mellon, announced an agreement to sell Newton’s private client business. The agreement covers 7% of Newton’s assets under management valued at £3.6 billion and approximately 3,000 private clients. The transaction is anticipated to close in the third quarter of 2013, subject to regulatory approval. We expect this transaction to be immaterial to our results of operations.

U.S. Tax Court Ruling

As previously disclosed, on Feb. 11, 2013, the U.S. Tax Court issued a ruling against BNY Mellon upholding the IRS’ disallowance of certain foreign tax credits claimed for the 2001 and 2002 tax years. As a result of the ruling, BNY Mellon recorded an \$854 million after-tax charge, or \$0.73 per common share, in the first quarter of 2013.

BNY Mellon will appeal the court’s decision. We continue to believe the tax treatment of the transaction was consistent with statutory and judicial authority existing at the time.

Highlights of first quarter 2013 results

In the first quarter of 2013, we reported a net loss applicable to common shareholders of BNY Mellon of \$266 million, or \$0.23 per diluted common share, which included a previously announced charge of \$854 million, or \$0.73 per common share, related to the U.S. Tax Court’s disallowance of certain foreign tax credits. Excluding this charge, net income applicable to common shareholders was \$588 million and earnings per diluted common share was \$0.50. This compares with net income of \$619 million, or \$0.52 per diluted common share, in the first quarter of 2012.

Highlights of first quarter 2013 include:

Assets under custody and/or administration (“AUC/A”) totaled \$26.3 trillion at March 31, 2013 compared with \$25.7 trillion at March 31, 2012 and \$26.3 trillion at Dec. 31, 2012. The increase of 2% year-over-year primarily reflects net new business and improved market values. (See the “Investment Services business” beginning on page 19.)

Assets under management (“AUM”) totaled a record \$1.43 trillion at March 31, 2013 compared with \$1.31 trillion at March 31, 2012 and \$1.39 trillion at Dec. 31, 2012. This represents an increase of 9% year-over-year and 3% sequentially. Both increases primarily resulted from net new business and higher market values. (See the “Investment Management business” beginning on page 16).

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Investment services fees totaled \$1.7 billion in the first quarter of 2013 compared with \$1.6 billion in the first quarter of 2012. The increase was driven by improved asset servicing, treasury and clearing services revenue, partially offset by lower issuer services and securities lending revenue. (See the “Investment Services business” beginning on page 19). Investment management and performance fees totaled \$822 million in the first quarter of 2013 compared with \$745 million in the first quarter of 2012. The increase was driven by the acquisition of the remaining 50% interest in Meriten Investment Management (“Meriten”), higher market values, net new business and lower money market fee waivers. (See the

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“Investment Management business” beginning on page 16).

Foreign exchange and other trading revenue totaled \$161 million in the first quarter of 2013 compared with \$191 million in the first quarter of 2012. The decrease was driven by lower other trading revenue partially offset by higher foreign exchange revenue. (See “Fee and other revenue” beginning on page 7).

Investment income and other revenue totaled \$72 million in the first quarter of 2013 compared with \$139 million in the first quarter of 2012. The decrease primarily resulted from lower leasing gains, foreign currency remeasurement and seed capital gains. (See “Fee and other revenue” beginning on page 7).

Net interest revenue totaled \$719 million in the first quarter of 2013 compared with \$765 million in the first quarter of 2012. The net interest margin (FTE) was 1.11% in the first quarter of 2013 compared with 1.32% in the first quarter of 2012. Both decreases primarily reflect lower reinvestment yields, lower accretion and the elimination of interest on European Central Bank Deposits. (See “Net interest revenue” beginning on page 10).

The provision for credit losses was a credit of \$24 million in the first quarter of 2013 compared with a provision of \$5 million in the first quarter of 2012. (See “Asset quality and allowance for credit losses” beginning on page 32).

Noninterest expense was flat year-over-year totaling \$2.8 billion in both the first quarter of 2013 and the first quarter of 2012. (See “Noninterest expense” beginning on page 12).

BNY Mellon recorded an income tax provision of \$1 billion in the first quarter of 2013, which included the \$854 million charge related to the disallowance of certain foreign tax credits. (See “Income taxes” on page 13).

The net unrealized pre-tax gain on our total investment securities portfolio was \$2.2 billion at March 31, 2013 compared with \$2.4 billion at Dec 31, 2012. The decrease primarily reflects an increase in market interest rates and \$48 million of realized security gains in the first quarter of 2013. (See “Investment securities” beginning on page 27).

At March 31, 2013, our estimated Basel III Tier 1 common equity ratio was 9.4% compared with 9.8% at Dec. 31, 2012. (See “Capital” beginning on page 41).

Our Basel I Tier 1 capital ratio was 13.6% at March 31, 2013 and 15.0% at Dec. 31, 2012. (See “Capital” beginning on page 41).

In the first quarter of 2013, we repurchased 7.8 million common shares in the open market, at an average price of \$27.21 per share, for a total of \$211 million.

Fee and other revenue

Fee and other revenue

	1Q13	4Q12	1Q12	1Q13 vs.		
(dollars in millions, unless otherwise noted)				1Q12	4Q12	
Investment services fees:						
Asset servicing (a)	\$969	\$945	\$943	3	% 3	%
Issuer services	237	215	251	(6	) 10	
Clearing services	304	294	303	—	3	
Treasury services	141	141	136	4	—	
Total investment services fees	1,651	1,595	1,633	1	4	
Investment management and performance fees	822	853	745	10	(4)
Foreign exchange and other trading revenue	161	139	191	(16	) 16	
Distribution and servicing	49	52	46	7	(6)
Financing-related fees	41	45	44	(7	) (9)
Investment and other income	72	116	139	(48	) (38)
Total fee revenue	2,796	2,800	2,798	—	—	
Net securities gains	48	50	40	N/M	N/M	
Total fee and other revenue - GAAP	\$2,844	\$2,850	\$2,838	—	% —	%

Fee revenue as a percentage of total revenue excluding net securities gains 78 % 78 % 78 %

AUM at period end (in billions) (b)	\$1,429	\$1,386	\$1,308	9	% 3	%
AUC/A at period end (in trillions) (c)	\$26.3	\$26.3	\$25.7	2	% —	%

(a) Asset servicing fees include securities lending revenue of \$39 million in 1Q13, \$41 million in 4Q12 and \$49 million in 1Q12.

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

Reflects revisions, which were not material, for prior periods as a result of our previously disclosed reviews of our AUC/A and our process for reporting information. See pages 4-5 of our 2012 Annual Report. Includes the AUC/A of CIBC Mellon of \$1.2 trillion at March 31, 2013, \$1.1 trillion at Dec. 31, 2012 and \$1.2 trillion at March 31, 2012.

Fee and other revenue

Fee and other revenue totaled \$2.8 billion in the first quarter of 2013, essentially unchanged both year-over-year and sequentially. Year-over-year, higher investment management and performance fees and asset servicing revenue were offset by lower investment and other income and lower foreign exchange and other trading revenue. Sequentially, higher asset servicing, issuer services and foreign exchange and other trading revenue were offset by lower investment and other income.

Investment services fees

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

-

Asset servicing fees increased 3% year-over-year and 3% (unannualized) sequentially, primarily driven by increased activity with existing clients and improved market values, partially offset by lower securities lending revenue.

Issuer services fees decreased 6% year-over-year and increased 10% (unannualized) sequentially. The year-over-year decrease primarily resulted from lower Depositary Receipts revenue, driven by lower issuance volumes and lower servicing fees. The sequential increase primarily resulted from higher Depositary Receipts revenue driven by an improvement in dividends and higher core volumes, partially offset by lower Corporate Trust revenue reflecting the continued net run-off of structured debt securitizations. We continue to estimate this run-off could reduce the Company's total annual revenue by approximately one-half to three-quarters of 1% if the structured debt markets do not recover.

Clearing services fees increased slightly year-over-year and 3% (unannualized) sequentially. Both increases primarily resulted from higher mutual fund fees, increases in positions and assets, higher cash management fees and an increase in daily average revenue trades ("DARTS"), partially offset by higher money market fee waivers and fewer trading days.

Treasury services fees increased 4% year-over-year and were unchanged sequentially. The

year-over-year increase primarily reflects higher cash management fees.

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

Investment management and performance fees

Investment management and performance fees totaled \$822 million in the first quarter of 2013, an increase of 10% year-over-year and a decrease of 4% (unannualized) sequentially. The year-over-year increase was impacted by the acquisition of the remaining 50% interest in Meriten. Excluding the Meriten acquisition, investment management and performance fees increased 9% year-over-year driven by higher market values, net new business and lower money market fee waivers. The sequential decrease reflects seasonally lower performance fees and higher money market fee waivers, partially offset by higher market values. Comparisons to both prior periods were negatively impacted by the stronger U.S. dollar. Performance fees were \$15 million in the first quarter of 2013, \$16 million in the first quarter of 2012 and \$56 million in the fourth quarter of 2012.

Total AUM for the Investment Management business was a record \$1.4 trillion at March 31, 2013, a 9% increase compared with the prior year and 3% (unannualized) sequentially. Both increases resulted from net new business and higher market values. In the first quarter of 2013, long-term inflows totaled a record \$40 billion primarily benefiting from liability-driven investments as well as equity and fixed income funds.

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

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue (in millions)	1Q13	4Q12	1Q12
Foreign exchange	\$149	\$106	\$136
Other trading revenue:			
Fixed income	8	25	47
Equity/other	4	8	8
Total other trading revenue	12	33	55
Total	\$161	\$139	\$191

Foreign exchange and other trading revenue totaled \$161 million in the first quarter of 2013, \$191 million in the first quarter of 2012 and \$139 million in the fourth quarter of 2012. In the first quarter of 2013, foreign exchange revenue totaled \$149 million, an increase of 10% year-over-year and 41% (unannualized) sequentially. The year-over-year increase primarily reflects higher volumes, partially offset by a decrease in volatility, while the sequential increase reflects increased volatility and higher volumes. Additionally, foreign exchange revenue continues to be impacted by increasingly competitive market pressures. Other trading revenue totaled \$12 million in the first quarter of 2013, compared with \$55 million first quarter of 2012 and \$33 million in the fourth quarter of 2012. Both decreases were principally due to losses on interest rate hedges and lower fixed income and equity trading. Foreign exchange revenue and fixed income trading revenue is reported in the Investment Services business and the Other segment. Equity/other trading revenue is primarily reported in the Other segment.

The foreign exchange trading engaged in by the Company generates revenues, which are influenced by the volume of client transactions and the spread realized on these transactions. The level of volume and spreads is affected by market volatility, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional clients. These revenues also depend on

our ability to manage the risk associated with the currency transactions we execute. A substantial majority of our foreign exchange trades is undertaken for our custody clients in transactions where BNY Mellon acts as principal, and not as an agent or broker. As a principal, we earn a profit, if any, based on our ability to risk manage the aggregate foreign currency positions that we buy and sell on a daily basis. Generally speaking, custody clients enter into foreign exchange transactions in one of three ways: negotiated trading with BNY Mellon, BNY Mellon's standing instruction program, or transactions with third-party foreign exchange providers. Negotiated trading generally refers to orders entered by the client or the client's investment manager, with all decisions related to the transaction, usually on a transaction-specific basis, made by the client or its investment manager. Such transactions may be initiated by (i) contacting one of our sales desks to negotiate the

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rate for specific transactions, (ii) using electronic trading platforms, or (iii) electing other methods such as those pursuant to a benchmarking arrangement, in which pricing is determined by an objective market rate plus a pre-negotiated spread. The preponderance of the notional value of our trading volume with clients is in negotiated trading. Our standing instruction program, including a standing instruction program option called the Defined Spread Offering, which the Company introduced to clients in the first quarter of 2012, provides custody clients and their investment managers with an end-to-end solution that allows them to shift to BNY Mellon the cost, management and execution risk, often in small transactions not otherwise eligible for a more favorable rate or transactions in restricted and difficult to trade currencies. We incur substantial costs in supporting the global operational infrastructure required to administer the standing instruction program; on a per-transaction basis, the costs associated with the standing instruction program exceed the costs associated with negotiated trading. In response to competitive market pressures and client requests, we are continuing to develop standing instruction program products and services and making these new products and services available to our clients. Our custody clients choose to use third-party foreign exchange providers other than BNY Mellon for a substantial majority of their U.S. dollar-equivalent volume foreign exchange transactions.

We typically price negotiated trades for our custody clients at a spread over either our estimation of the current market rate for a particular currency or an agreed upon third-party benchmark. With respect to our standing instruction program, we typically assign a price derived from the daily pricing range for marketable-size foreign exchange transactions (generally more than \$1 million) executed between global financial institutions, known as the “interbank range.” Using the interbank range for the given day, we typically price purchases of currencies at or near the low end of this range and sales of currencies at or near the high end of this range. The standing instruction program Defined Spread Offering prices transactions in each pricing cycle (several times a day in the case of developed market currencies) by adding a predetermined spread to an objective market source for developed and certain emerging market currencies or to a reference rate computed by BNY Mellon for other emerging market currencies. A shift by custody clients from the standing

instruction program to other trading options combined with the increasing competitive market pressures on the foreign exchange business may negatively impact our foreign exchange revenue. For the quarter ended March 31, 2013, our total revenue for all types of foreign exchange trading transactions was \$149 million, or approximately 4% of our total revenue and approximately 37% 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 \$49 million in the first quarter of 2013, \$46 million in the first quarter of 2012 and \$52 million in the fourth quarter of 2012. The year-over-year increase primarily reflects higher market values. The sequential decrease primarily reflects short-term outflows.

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 \$41 million in the first quarter of 2013, \$44 million in the first quarter of 2012 and \$45 million in the fourth quarter of 2012. The decrease from both prior periods was primarily a result of lower capital markets fees.

Investment and other income

Investment and other income (in millions)	1Q13	4Q12	1Q12
Corporate/bank-owned life insurance	\$34	\$41	\$34

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Equity investment revenue (loss)	13	(1)6	
Expense reimbursements from joint ventures	11	9	10	
Asset-related gains (losses)	7	22	(2)
Seed capital gains	6	7	24	
Transitional services agreements	5	5	7	
Lease residual gains	1	14	34	
Private equity gains (losses)	(2	)4	4
Other income (loss)	(3	)15	22
Total investment and other income	\$72	\$116	\$139	

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes income from insurance contracts, equity investment revenue and loss, expense reimbursements from joint ventures,

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asset-related gains and losses, lease residual gains, transitional services agreements, gains or losses on seed capital investments, gains and losses on private equity investments, and other income and loss. Expense reimbursements from joint ventures relate to expenses incurred by BNY Mellon on behalf of joint ventures. Asset-related gains (losses) include loan, real estate and other asset dispositions. Transitional services agreements primarily relate to the Shareowner Services business, which was sold on Dec. 31, 2011. Other income (loss) primarily includes foreign currency remeasurement gain (loss), other investments and various miscellaneous revenues. Investment and other income decreased \$67 million compared with the first quarter of 2012 and \$44 million compared with the fourth quarter of 2012. Both decreases reflect lower leasing gains and lower foreign currency remeasurement.

Additionally, the year-over-year decrease includes lower seed capital gains, and the sequential decrease includes lower net gains on loans held for sale retained from a previously divested bank subsidiary.

Net securities gains

Net securities gains totaled \$48 million in the first quarter of 2013, \$40 million in the first quarter of 2012 and \$50 million in the fourth quarter of 2012. The current low interest rate environment has created the opportunity for us to realize gains as we rebalance and manage the duration risk of the investment securities portfolio. Gains realized on the sales of securities should be considered along with net interest revenue when evaluating our overall results.

Net interest revenue

Net interest revenue

	1Q13	4Q12	1Q12	1Q13 vs.	
(dollars in millions)				1Q12	4Q12
Net interest revenue (non-FTE)	\$719	\$725	\$765	(6)%	(1)%
Tax equivalent adjustment	14	15	11	27	(7)
Net interest revenue (FTE) – Non-GAAP	733	740	776	(6)%	(1)%
Average interest-earning assets	\$265,754	\$270,215	\$236,331	12 %	(2)%
Net interest margin (FTE)	1.11	% 1.09	% 1.32	% (21)bps	2 bps

Net interest revenue totaled \$719 million in the first quarter of 2013, a decrease of \$46 million compared with the first quarter of 2012 and \$6 million sequentially. The year-over-year decrease was primarily driven by lower accretion, lower yields on the reinvestment of securities and the elimination of interest on European Central Bank deposits, partially offset by a change in the mix of earning assets and higher average interest-earning assets driven by higher deposit levels. The decrease compared with the fourth quarter of 2012 primarily reflects a fewer number of days in the first quarter of 2013.

The net interest margin (FTE) was 1.11% in the first quarter of 2013 compared with 1.32% in the first quarter of 2012 and 1.09% in the fourth quarter of 2012. The year-over-year decrease in the net interest margin (FTE) reflects higher average interest-

earning assets driven by higher deposits levels, lower reinvestment yields, lower accretion and the elimination of interest on European Central Bank deposits.

The current low interest rate environment has continued to negatively impact net interest revenue. However, it has driven significant improvement in the value of the investment securities portfolio while creating the opportunity for us to realize gains as we rebalance and manage the duration risk of this portfolio. Gains realized on these sales should be

considered along with net interest revenue when evaluating our overall results. In the first quarter of 2013, combined net interest revenue and net securities gains totaled \$767 million compared with \$805 million in the first quarter of 2012 and \$775 million in the fourth quarter of 2012.

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Average balances and interest rates (dollar amounts in millions, presented on an FTE basis)	Quarter ended March 31, 2013		Dec. 31, 2012		March 31, 2012	
	Average balance	Average rates	Average balance	Average rates	Average balance	Average rates
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign banks)	\$40,967	0.70 %	\$41,018	0.80 %	\$35,095	1.30 %
Interest-bearing deposits held at the Federal Reserve and other central banks	63,240	0.20	71,794	0.21	63,526	0.27
Federal funds sold and securities purchased under resale agreements	7,478	0.54	5,984	0.56	5,174	0.73
Margin loans	13,346	1.17	13,085	1.26	12,901	1.29
Non-margin loans:						
Domestic offices	21,358	2.38	20,560	2.42	20,128	2.46
Foreign offices	11,575	1.36	9,968	1.64	10,180	1.77
Total non-margin loans	32,933	2.02	30,528	2.16	30,308	2.23
Securities:						
U.S. government obligations	18,814	1.54	19,915	1.39	17,268	1.56
U.S. government agency obligations	42,397	1.85	41,361	1.94	32,347	2.44
State and political subdivisions – tax-exempt	6,194	2.38	6,154	2.52	3,354	2.97
Other securities	34,507	2.03	35,082	2.04	33,839	2.84
Trading securities	5,878	2.40	5,294	2.54	2,519	2.78
Total securities	107,790	1.91	107,806	1.94	89,327	2.45
Total interest-earning assets	\$265,754	1.26 %	\$270,215	1.27 %	\$236,331	1.56 %
Allowance for loan losses	(264)		(337)		(392)	
Cash and due from banks	4,534		4,284		4,271	
Other assets	52,137		50,439		49,690	
Assets of consolidated investment management funds	11,503		11,394		11,444	
Total assets	\$333,664		\$335,995		\$301,344	
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposits:						
Money market rate accounts and demand deposit accounts	\$8,778	0.19 %	\$8,570	0.18 %	\$4,446	0.28 %
Savings	819	0.29	815	0.29	704	0.10
Time deposits	39,091	0.05	38,085	0.06	33,618	0.08
Foreign offices	99,040	0.08	95,249	0.09	86,670	0.15
Total interest-bearing deposits	147,728	0.08	142,719	0.09	125,438	0.14
Federal funds purchased and securities sold under repurchase agreements	9,187	(0.12)	10,158	0.07	8,584	(0.02)
Trading liabilities	2,552	1.35	1,943	1.41	1,153	1.55
Other borrowed funds	1,152	0.90	1,064	1.45	2,512	0.79
Commercial paper	245	0.09	805	0.12	67	0.08
Payables to customers and broker-dealers	9,019	0.09	8,532	0.09	7,555	0.11
Long-term debt	18,878	1.18	19,259	1.46	20,538	1.79
Total interest-bearing liabilities	\$188,761	0.20 %	\$184,480	0.25 %	\$165,847	0.34 %
Total noninterest-bearing deposits	70,337		79,987		66,613	
Other liabilities	27,416		24,458		24,248	

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Liabilities and obligations of consolidated investment management funds	10,186	10,114	10,159
Total liabilities	296,700	299,039	266,867
Temporary equity			
Redeemable noncontrolling interests	175	155	72
Permanent equity			
Total BNY Mellon shareholders' equity	35,966	36,028	33,718
Noncontrolling interests	823	773	687
Total permanent equity	36,789	36,801	34,405
Total liabilities, temporary equity and permanent equity	\$333,664	\$335,995	\$301,344
Net interest margin (FTE)	1.11 %	1.09 %	1.32 %

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

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Noninterest expense Noninterest expense (dollars in millions)	1Q13	4Q12	1Q12	1Q13 vs. 1Q12		4Q12	
Staff:							
Compensation	\$885	\$911	\$861	3	%	(3)%
Incentives	338	311	352	(4	)	9	
Employee benefits	249	235	240	4		6	
Total staff	1,472	1,457	1,453	1		1	
Professional, legal and other purchased services	295	322	299	(1	)	(8)
Net occupancy	163	156	147	11		4	
Software	140	151	119	18		(7)
Distribution and servicing	106	108					