

Bank of New York Mellon CORP  
Form 10-Q  
August 06, 2010  
Table of Contents

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 June 30, 2010**

or

Transition Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Commission File No. 000-52710

## THE BANK OF NEW YORK MELLON CORPORATION

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(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

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

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 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 company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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

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

<u>Class</u>	<u>Outstanding as of</u> <u>June 30, 2010</u>
Common Stock, \$0.01 par value	1,214,041,681

**Table of Contents**

**THE BANK OF NEW YORK MELLON CORPORATION**

**SECOND QUARTER 2010 FORM 10-Q**

**TABLE OF CONTENTS**

<u>Consolidated Financial Highlights (unaudited)</u>	<b>Page</b> 2
<b>Part I Financial Information</b>	
<u>Items 2. and 3. Management's Discussion and Analysis of Financial Condition and Results of Operations; Quantitative and Qualitative Disclosures About Market Risk:</u>	
<u>General</u>	4
<u>Overview</u>	4
<u>Second quarter 2010 and subsequent events</u>	5
<u>Highlights of second quarter 2010 results</u>	6
<u>Fee and other revenue</u>	8
<u>Operations of consolidated asset management funds</u>	11
<u>Net interest revenue</u>	11
<u>Average balances and interest rates</u>	12
<u>Noninterest expense</u>	14
<u>Income taxes</u>	15
<u>Business segments review</u>	15
<u>Critical accounting estimates</u>	33
<u>Consolidated balance sheet review</u>	33
<u>Support agreements</u>	42
<u>Liquidity and dividends</u>	42
<u>Capital</u>	45
<u>Trading activities and risk management</u>	47
<u>Foreign exchange and other trading</u>	48
<u>Asset/liability management</u>	49
<u>Off-balance-sheet financial instruments</u>	49
<u>Supplemental information – Explanation of Non-GAAP financial measures</u>	50
<u>Recent accounting and regulatory developments</u>	53
<u>Government monetary policies and competition</u>	56
<u>Website information</u>	57
<u>Item 1. Financial Statements:</u>	
<u>Consolidated Income Statement (unaudited)</u>	58
<u>Consolidated Balance Sheet (unaudited)</u>	60
<u>Consolidated Statement of Cash Flows (unaudited)</u>	61
<u>Consolidated Statement of Changes in Equity (unaudited)</u>	62
<u>Notes to Consolidated Financial Statements</u>	63
<u>Item 4. Controls and Procedures.</u>	101
<u>Forward-looking Statements.</u>	102
<b>Part II Other Information</b>	
<u>Item 1. Legal Proceedings</u>	103
<u>Item 1A. Risk Factors</u>	103
Table of Contents	3

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

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	104
<u>Item 6. Exhibits</u>	104
<u>Signature</u>	105
<u>Index to Exhibits</u>	106

BNY Mellon 1

**Table of Contents****The Bank of New York Mellon Corporation****Consolidated Financial Highlights (unaudited)**

	Quarter ended			Six months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2010	2010	2009	2010	2009
<i>(dollar amounts in millions, except per share amounts)</i>					
<i>and unless otherwise noted</i>					
<b>Reported results applicable to common shareholders of The Bank of New York Mellon Corporation:</b>					
Net income	\$ 658	\$ 559	\$ 176	\$ 1,217	\$ 498
Basic EPS	0.54	0.46	0.15	1.00	0.43
Diluted EPS	0.54	0.46	0.15	1.00	0.43
<b>Results from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation:</b>					
Income from continuing operations	\$ 668	\$ 601	\$ 267	\$ 1,269	\$ 630
Basic EPS from continuing operations	0.55	0.50	0.23	1.04	0.54
Diluted EPS from continuing operations	0.55	0.49	0.23	1.04	0.54
<b>Continuing operations:</b>					
Fee and other revenue	\$ 2,571	\$ 2,549	\$ 2,257	\$ 5,120	\$ 4,393
Income of consolidated asset management funds	65	65	-	130	-
Net interest revenue	722	765	700	1,487	1,475
Total revenue	\$ 3,358	\$ 3,379	\$ 2,957	\$ 6,737	\$ 5,868
Return on common equity <i>(annualized) (a)(b)</i>	8.8%	8.2%	4.0%	8.5%	4.9%
Non-GAAP adjusted <i>(b)</i>	9.5%	10.6%	6.6%	10.0%	8.6%
Return on tangible common equity <i>(annualized)</i>					
Non-GAAP <i>(b)</i>	25.8%	25.8%	18.4%	25.7%	23.2%
Non-GAAP adjusted <i>(b)</i>	25.5%	30.2%	24.0%	27.7%	33.3%
Fee and other revenue as a percent of total revenue	77%	75%	76%	76%	75%
Annualized fee revenue per employee <i>(based on average headcount) (in thousands)</i>	\$ 241	\$ 244	\$ 241	\$ 243	\$ 238
Percent of non-U.S. fee and net interest revenue including noncontrolling interests related to consolidated asset management funds	35%	34%	31%	35%	30%
Pre-tax operating margin <i>(b)</i>	30%	26%	17%	28%	18%
Non-GAAP adjusted <i>(b)</i>	32%	34%	31%	33%	32%
Net interest margin (FTE)	1.74%	1.89%	1.80%	1.82%	1.84% <i>(c)</i>
Assets under management ( AUM ) at period end <i>(in billions)</i>	\$ 1,047	\$ 1,105	\$ 926	\$ 1,047	\$ 926
Assets under custody and administration ( AUC ) at period end <i>(in trillions)</i>	\$ 21.8	\$ 22.4	\$ 20.7	\$ 21.8	\$ 20.7
Equity securities	28%	30%	27%	28%	27%
Fixed income securities	72%	70%	73%	72%	73%
Cross-border assets at period end <i>(in trillions)</i>	\$ 8.3	\$ 8.8	\$ 7.8	\$ 8.3	\$ 7.8
Market value of securities on loan at period end <i>(in billions)</i> <i>(d)</i>	\$ 248	\$ 253	\$ 290	\$ 248	\$ 290
Average common shares and equivalents outstanding <i>(in thousands):</i>					
Basic	1,204,557	1,202,533	1,171,081	1,203,554	1,158,649
Diluted	1,208,830	1,206,286	1,174,466	1,207,578	1,160,620

**Table of Contents****The Bank of New York Mellon Corporation****Consolidated Financial Highlights (unaudited)** (continued)

(dollar amounts in millions, except per share amounts)

and unless otherwise noted

	Quarter ended			Six months ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
	2010	2010	2009	2010	2009
<b>Capital ratios (e):</b>					
Tier 1 capital ratio	13.5%	13.3%	12.5%	13.5%	12.5%
Total (Tier 1 plus Tier 2) capital ratio	17.2%	17.2%	16.0%	17.2%	16.0%
Common shareholders' equity to total assets ratio (b)	12.9%	13.5%	13.4%	12.9%	13.4%
Tangible common shareholders' equity to tangible assets of operations ratio - Non-GAAP (b)	6.3%	6.1%	4.8%	6.3%	4.8%
Tier 1 common equity to risk-weighted assets ratio (b)	11.9%	11.6%	11.1%	11.9%	11.1%
Return on average assets (annualized) (a)	1.17%	1.09%	0.52%	1.13%	0.60%
<b>Selected average balances:</b>					
Interest-earning assets	\$ 167,119	\$ 163,429	\$ 157,265	\$ 165,285	\$ 162,318 (f)
Assets of operations	\$ 216,801	\$ 212,685	\$ 208,533	\$ 214,755	\$ 214,294
Total assets	\$ 228,841	\$ 225,415	\$ 208,533	\$ 227,138	\$ 214,294
Interest-bearing deposits	\$ 99,963	\$ 101,034	\$ 98,896	\$ 100,496	\$ 100,430 (f)
Noninterest-bearing deposits	\$ 34,628	\$ 33,330	\$ 32,852	\$ 33,983	\$ 37,924 (f)
Total The Bank of New York Mellon Corporation shareholders' equity	\$ 30,434	\$ 29,715	\$ 28,934	\$ 30,076	\$ 28,458
<b>Other information at period end:</b>					
Employees	42,700	42,300	41,800	42,700	41,800
Cash dividends per common share	\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.33
Dividend yield (annualized)	1.5%	1.2%	1.2%	1.5%	2.3%
Closing common stock price per common share	\$ 24.69	\$ 30.88	\$ 29.31	\$ 24.69	\$ 29.31
Market capitalization	\$ 29,975	\$ 37,456	\$ 35,255	\$ 29,975	\$ 35,255
Book value per common share (b)	\$ 25.04	\$ 24.47	\$ 22.68	\$ 25.04	\$ 22.68
Tangible book value per common share - Non-GAAP (b)	\$ 9.33	\$ 8.69	\$ 6.60	\$ 9.33	\$ 6.60
Common shares outstanding (in thousands)	1,214,042	1,212,941	1,202,828	1,214,042	1,202,828

(a) Return on common equity on a net income basis was 8.7% for the second quarter of 2010, 7.6% for the first quarter of 2010, 2.7% for the second quarter of 2009, 8.2% for the first six months of 2010 and 3.9% for the first six months of 2009. Return on average assets on a net income basis was 1.15% for the second quarter of 2010, 1.01% for the first quarter of 2010, 0.34% for the second quarter of 2009, 1.08% for the first six months of 2010 and 0.47% for the first six months of 2009. Return on average assets was calculated on a continuing operations basis even though the prior period balance sheets, in accordance with GAAP, have not been restated for discontinued operations.

(b) See Supplemental Information beginning on page 50 for a calculation of these ratios.

(c) Calculated on a continuing operations basis, even though the prior period balance sheet in accordance with GAAP has not been restated for discontinued operations.

(d) Represents the total amount of securities on loan, both cash and non-cash, managed by the Asset Servicing segment.

(e) Includes discontinued operations.

(f) Excludes the impact of discontinued operations.

## **Table of Contents**

### **Part I Financial Information**

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

### **General**

In this Quarterly Report on Form 10-Q, references to our, we, us, BNY Mellon, the Company, and similar terms refer to The Bank of New York Mellon Corporation.

Certain business terms used in this document are defined in the glossary included in our 2009 Annual Report on

Form 10-K.

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

#### *How we reported results*

All information in this Quarterly Report on Form 10-Q is reported on a continuing operations basis, unless otherwise noted. For a description of discontinued operations, see Note 4 to the Notes to Consolidated Financial Statements.

Throughout this Form 10-Q, certain measures, which are noted, exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons, which relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present certain amounts 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. The adjustment to an FTE basis has no impact on net income. See Supplemental information Explanation of Non-GAAP financial measures beginning on page 50 for a reconciliation of financial measures presented in accordance with GAAP to adjusted Non-GAAP financial measures.

In the first quarter of 2010, we adopted ASU 2009-16, Accounting for Transfers of Financial Assets and ASU 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. For a discussion of ASU 2009-16 and ASU 2009-17, see Notes 2 and 13 in the Notes to Consolidated Financial Statements.

### **Overview**

BNY Mellon is a global leader in providing a comprehensive array of services that enable institutions and individuals to manage and service their financial assets, operating in 36 countries and serving more than 100 markets worldwide. We strive to be the global provider of choice for asset and wealth management and institutional services and be recognized for our broad and deep capabilities, superior client service and consistent outperformance versus peers. Our global client base consists of financial institutions, corporations, government agencies, high-net-worth individuals, families, endowments and foundations and related entities. At June 30, 2010, we had \$21.8 trillion in assets under custody and administration and \$1.0 trillion in assets under management, serviced \$11.6 trillion in outstanding debt and, on average, we process \$1.5 trillion of global payments per day. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK).

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

BNY Mellon's businesses benefit during periods of global growth in financial assets and concentration of wealth, and also benefit from the globalization of the investment process. Over the long term, our financial goals are focused on deploying capital to accelerate the long-term growth of our businesses and on achieving superior total returns to shareholders by generating first quartile earnings per share growth over time relative to a group of peer companies.

Key components of our strategy include: providing superior client service versus peers; strong investment performance (relative to investment benchmarks); above median revenue growth (relative to peer companies for each of our businesses); an increasing percentage of revenue and income derived from outside the U.S.; successful integration of acquisitions; competitive margins; and positive operating leverage. We have established Tier 1 capital as our principal capital measure and have established a targeted ratio of Tier 1 capital to risk-weighted assets of 10%.

4 BNY Mellon



---

## **Table of Contents**

### **Second quarter 2010 and subsequent events**

#### *Equity offering and forward sale agreement*

In June 2010, BNY Mellon priced 25.9 million common shares in an underwritten public offering, at \$27.00 per common share, for a total of \$700 million. In connection with this offering, BNY Mellon entered into a forward sale agreement with a forward purchaser, who borrowed and sold to the public through the underwriters shares of the Company's common stock. The Company will not receive any proceeds from the sale of its common stock until settlement of the forward sale agreement, which is expected to occur in the third quarter of 2010. The Company intends to use any proceeds that it receives upon settlement of the forward sale agreement to fund the acquisition of Global Investment Servicing, Inc. or for general corporate purposes.

#### *Acquisition of Global Investment Servicing, Inc.*

On July 1, 2010, BNY Mellon acquired Global Investment Servicing, Inc. (GIS) for cash of \$2.31 billion. GIS provides a comprehensive suite of products which includes subaccounting, fund accounting/administration, custody, managed account services and alternative investment services. GIS is based in Wilmington, Delaware and has approximately 4,500 employees in locations across the U.S. and Europe.

At June 30, 2010, GIS had approximately \$719 billion in assets under administration, including \$449 billion in assets under custody. GIS will be included in the Institutional Services sector for reporting purposes. The transaction is expected to be accretive to earnings in 2010.

Approximately \$3.9 billion of deposits related to GIS are expected to transition to BNY Mellon over the next eighteen months. Beginning in the third quarter of 2010 and until the transition is complete, we will receive net economic value payments for these deposits.

#### *Acquisition of BHF Asset Servicing GmbH*

On Aug. 2, 2010, BNY Mellon completed the acquisition of BHF Asset Servicing GmbH (BAS) for cash of EUR253 million (US\$330 million). This

transaction included the purchase of Frankfurter Service Kapitalanlage Gesellschaft mbH (FSKAG), a wholly-owned fund administration affiliate.

BAS and FSKAG will become part of BNY Mellon's Asset Servicing segment. The combined business offers a full range of tailored solutions for investment companies, financial institutions and institutional investors in Germany with EUR569 billion (US\$744 billion) in assets under custody and administration and depotbanking volume of EUR122 billion (US\$159 billion). The transaction is expected to be accretive to earnings in 2010.

#### *Asset Management joint venture in Shanghai*

In July 2010, the China Securities Regulatory Commission authorized BNY Mellon and Western Securities to establish a joint venture fund management company in China. The new company, BNY Mellon Western Fund Management Company Limited, will be owned by BNY Mellon (49%) and Western Securities (51%).

BNY Mellon Western Fund Management will initially manage domestic Chinese securities in a range of local retail fund products. BNY Mellon Western Fund Management will also focus on leveraging distribution within the Chinese banking and securities sectors.

#### *Agreement to acquire I(3) Advisors*

On June 18, 2010, BNY Mellon announced an agreement to acquire I(3) Advisors of Toronto, an independent wealth advisory company with more than C\$3.5 billion in assets under advisement. This will be BNY Mellon's first wealth management acquisition in Canada, and is another step in the international expansion of our wealth management business. The combined business will offer clients broader global asset management opportunities, increased access to alternative investment opportunities, enhanced technology and reporting capabilities and expanded banking and wealth planning services. The transaction is expected to close in the third quarter of 2010, subject to regulatory approvals.

#### *Asset Management license in Korea*

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

In June 2010, BNY Mellon received approval from Korea's Financial Services Commission for a

BNY Mellon 5

---

## **Table of Contents**

Discretionary Investment Management ( DIM ) license. The DIM license allows BNY Mellon to contract for discretionary investment management services with local financial institutions and professional investors.

### *Creation of a Futures and Derivatives Clearing Company*

In June 2010, BNY Mellon Clearing, LLC ( BNY Mellon Clearing ), our wholly-owned subsidiary, became a futures commission merchant registered with the Commodity Futures Trading Commission and a member of the National Futures Association. BNY Mellon Clearing will clear futures and derivatives trades on behalf of institutional clients as well as BNY Mellon's internal derivatives clearing activity. We anticipate that BNY Mellon Clearing will become a clearing member on major exchanges and central clearinghouses on a global basis to support clients trading activities.

### **Highlights of second quarter 2010 results**

We reported income from continuing operations applicable to the common shareholders of BNY Mellon of \$668 million, or \$0.55 per diluted common share, in the second quarter of 2010 compared with \$601 million, or \$0.49 per diluted common share, in the first quarter of 2010 and \$267 million, or \$0.23 per diluted common share, in the second quarter of 2009.

Net income applicable to common shareholders, including discontinued operations, totaled \$658 million, or \$0.54 per diluted common share, in the second quarter of 2010, compared with \$559 million, or \$0.46 per diluted common share, in the first quarter of 2010 and \$176 million, or \$0.15 per diluted common share, in the second quarter of 2009.

Highlights for the second quarter of 2010 include:

Assets under custody and administration ( AUC ) totaled \$21.8 trillion at June 30, 2010 compared with \$20.7 trillion at June 30, 2009 and \$22.4 trillion at March 31, 2010. The year-over-year increase reflects higher market values and net new business. The sequential decrease primarily reflects lower market value. (See the Institutional Services sector on page 25).

Assets under management ( AUM ), excluding securities lending assets, totaled \$1.0 trillion at June 30, 2010 compared with \$926 billion at June 30, 2009 and \$1.1 trillion at March 31, 2010. The year-over-year increase was primarily due to the acquisition of Insight Investment Management ( Insight ) in the fourth quarter of 2009. The sequential decrease primarily reflects lower market values. (See the Asset and Wealth Management sector on page 20).

Securities servicing revenue totaled \$1.267 billion in the second quarter of 2010 compared with \$1.293 billion in the second quarter of 2009. An increase in asset servicing revenue, excluding securities lending fee revenue, was partially offset by lower issuer and clearing services revenue, which were negatively impacted by lower money market distribution fees. (See the Institutional Services sector on page 25).

Securities lending fee revenue totaled \$46 million in the second quarter of 2010 compared with \$97 million in the prior year period. The decrease reflects narrower spreads and lower loan balances. Securities lending assets totaled \$248 billion at June 30, 2010 compared with \$253 billion at March 31, 2010 and \$290 billion at June 30, 2009. (See the Institutional Services sector on page 25).

Asset and wealth management fees, including performance fees, totaled \$676 million in the second quarter of 2010 compared with \$637 million in the second quarter of 2009. The increase reflects improved market values, the Insight acquisition in the fourth quarter of 2009, and the impact of new business, partially offset by higher fee waivers and a reduction in fees due to money market outflows. (See the Asset Management and Wealth Management segments beginning on page 21).

Foreign exchange and other trading activities revenue totaled \$220 million in the second quarter of 2010 compared with \$237 million in the second quarter of 2009. The decrease primarily reflects credit valuation adjustments ( CVA ) on derivatives due to widening spreads and lower fixed income trading revenue, partially offset by improvement in the credit derivative portfolio which was impacted by tighter credit spreads in the second quarter of 2009 and increased volatility in the foreign currency markets. (See Fee and other revenue beginning on page 8).

Investment income and other revenue totaled \$145 million in the second quarter of 2010 compared with \$53 million in the second quarter of 2009. The increase reflects positive foreign currency translations and lease residual gains, partially offset by lower seed capital revenue. (See Fee and other revenue beginning on page 8).

**Table of Contents**

Net interest revenue totaled \$722 million in the second quarter of 2010 compared with \$700 million in the second quarter of 2009. The increase reflects a higher yield on the restructured investment securities portfolio and a higher level of average interest-earning assets, partially offset by narrowing spreads and a reduction in the duration of placements. The net interest margin (FTE) for the second quarter of 2010 was 1.74% compared with 1.80% in the second quarter of 2009. (See Net interest revenue beginning on page 11).

The provision for credit losses was \$20 million in the second quarter of 2010 compared with \$61 million in the second quarter of 2009. The decrease in the provision primarily reflects a decrease in higher risk-rated loans and nonperforming loans. (See Asset quality and allowance for credit losses beginning on page 38).

Noninterest expense totaled \$2.3 billion in the second quarter of 2010 compared with \$2.4 billion in the second quarter of 2009. The decrease was primarily driven by the FDIC special assessment recorded in the second quarter of 2009 and lower merger and integration ( M&I ) expenses, partially offset by the impact of the Insight acquisition and higher incentive expenses. (See Noninterest expense beginning on page 14).

Unrealized net of tax gains on our total investment securities portfolio were \$114 million at June 30, 2010 compared with an unrealized net of tax loss of \$191 million at March 31, 2010. The improvement in the valuation of the investment securities portfolio was due to tightening credit spreads and a decline in interest rates. (See Consolidated balance sheet review beginning on page 33).

The Tier 1 capital ratio was 13.5% at June 30, 2010 compared with 13.3% at March 31, 2010. The increase reflects earnings retention, partially offset by higher risk-weighted assets. (See Capital beginning on page 45).

Nonperforming assets totaled \$406 million at June 30, 2010, a decrease of \$53 million, or 12%, compared with March 31, 2010, primarily due to repayments. (See Asset quality and allowance for credit losses beginning on page 38).

**Table of Contents****Fee and other revenue**

<b>Fee and other revenue</b>			<b>2Q10 vs.</b>		<b>Year-to-date</b>		<b>YTD10</b>	
<i>(dollars in millions, unless otherwise noted)</i>	<b>2Q10</b>	<b>1Q10</b>	<b>2Q09</b>	<b>2Q09</b>	<b>1Q10</b>	<b>2010</b>	<b>2009</b>	<b>vs.</b>
								<b>YTD09</b>
Securities servicing fees:								
Asset servicing	\$ 622	\$ 608	\$ 574	8%	2%	\$ 1,230	\$ 1,093	13%
Securities lending revenue	46	29	97	(53)	59	75	187	(60)
Issuer services	354	333	372	(5)	6	687	736	(7)
Clearing services	245	230	250	(2)	7	475	503	(6)
Total securities servicing fees	1,267	1,200	1,293	(2)	6	2,467	2,519	(2)
Asset and wealth management fees	676	678	637	6	-	1,354	1,253	8
Foreign exchange and other trading activities	220	262	237	(7)	(16)	482	544	(11)
Treasury services	125	131	132	(5)	(5)	256	257	-
Distribution and servicing	77	76	107	(28)	1	153	218	(30)
Financing-related fees	48	50	54	(11)	(4)	98	102	(4)
Investment income	72	108	44	64	(33)	180	27	N/M
Other	73	37	9	N/M	N/M	110	24	N/M
Total fee revenue GAAP	\$ 2,558	\$ 2,542	\$ 2,513	2%	1%	\$ 5,100	\$ 4,944	3%
Income of consolidated asset management funds, net of noncontrolling interests	32(a)	41(a)	-	N/M	(22)	73(a)	-	N/M
Total fee revenue Non-GAAP	\$ 2,590	\$ 2,583	\$ 2,513	3%	-%	\$ 5,173	\$ 4,944	5%
Net securities gains (losses)	13	7	(256)	N/M	N/M	20	(551)	N/M
Total fee and other revenue Non-GAAP (b)	\$ 2,603	\$ 2,590	\$ 2,257	15%	1%	\$ 5,193	\$ 4,393	18%
Fee and other revenue as a percent of total revenue	77%	75%	76%			76%	75%	
Market value of AUM at period end <i>(in billions)</i>	\$ 1,047	\$ 1,105	\$ 926	13%	(5)%	\$ 1,047	\$ 926	13%
Market value of AUC and administration at period end <i>(in trillions)</i>	\$ 21.8	\$ 22.4	\$ 20.7	6%	(2)%	\$ 21.8	\$ 20.7	6%

(a) As a result of adopting ASC 810 at March 31, 2010, we were required to segregate income from consolidated asset management funds of \$65 million in the second quarter of 2010, \$65 million in the first quarter of 2010 and \$130 million in the first six months of 2010, and net income attributable to noncontrolling interests of \$33 million, \$24 million and \$57 million, respectively, on the income statement. Prior to the adoption of ASC 810, the net of these income statement line items of \$32 million in the second quarter of 2010, \$41 million in the first quarter of 2010, and \$73 million in the first six months of 2010, respectively, was included in asset and wealth management fees (\$29 million, \$25 million and \$54 million, respectively) and investment income (\$3 million, \$16 million and \$19 million, respectively).

(b) Total fee and other revenue on a GAAP basis was \$2,571 million for the second quarter of 2010, \$2,549 million for the first quarter of 2010, \$2,257 million for the second quarter of 2009, \$5,120 million for the first six months of 2010 and \$4,393 million for the first six months of 2009.

N/M Not meaningful.

**Fee revenue**

The results of many of our businesses are influenced by client and market activities that vary by quarter.

Fee revenue increased 2% versus the year-ago quarter primarily due to increases in asset servicing revenue, asset and wealth management fees and other revenue, partially offset by decreases in securities lending revenue and foreign exchange and other trading activities. Sequentially, fee revenue increased 1% (unannualized) reflecting higher securities servicing fees and other revenue partially offset by lower foreign exchange and other trading revenue and investment income.

**Securities servicing fees**

Securities servicing fees were impacted by the following, compared with the second quarter of 2009 and first quarter of 2010:

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

Asset servicing fees Year-over-year results reflect higher market values and new business. The increase sequentially primarily reflects new business and higher transaction volumes.

Securities lending revenue The decrease year-over-year reflects narrower spreads and lower loan balances while the sequential increase reflects seasonality.

Issuer services fees The decrease year-over-year reflects lower Corporate Trust fee revenue resulting from decreased activity in the global debt markets and lower money market related

## **Table of Contents**

distribution fees, partially offset by higher Depository Receipts revenue reflecting higher issuance and service fees. The sequential increase resulted from seasonality in Depository Receipts and Shareowner Services, partially offset by lower Corporate Trust fee revenue.

Clearing services fees Year-over-year results reflect lower money market related distribution fees. The sequential increase reflects higher transaction fee volumes and higher money market fund fees.

See the Institutional Services sector in Business segments review for additional details.

### *Asset and wealth management fees*

Asset and wealth management fees increased 6% year-over-year and were unchanged sequentially. Excluding performance fees and income from consolidated asset management funds, net of noncontrolling interests, asset and wealth management fees increased 12% compared with the second quarter of 2009 and decreased 1% (unannualized) sequentially. The year-over-year increase reflects improved market values, the Insight acquisition and the impact of new business, partially offset by higher fee waivers and a reduction in fees due to money market outflows. Sequentially, the impact of new business was more than offset by lower market values.

Total AUM for the Asset and Wealth Management sector were \$1.0 trillion at June 30, 2010 compared with \$1.1 trillion at March 31, 2010 and \$926 billion at June 30, 2009. The increase compared with June 30, 2009 was primarily due to the Insight acquisition in the fourth quarter of 2009. The sequential decrease primarily reflects lower market values. The S&P 500 Index was 1031 at June 30, 2010 compared with 1169 at March 31, 2010 (a 12% decrease) and 919 at June 30, 2009 (a 12% increase).

See the Asset and Wealth Management sector in Business segments review for additional details regarding the drivers of asset and wealth management fees.

### *Foreign exchange and other trading activities*

Foreign exchange and other trading activities revenue, which is primarily reported in the Asset Servicing segment, was \$220 million in the second quarter of 2010, a decrease of 7% compared with the second quarter of 2009, and a decrease of 16%

(unannualized) compared with the first quarter of 2010. In the second quarter of 2010, foreign exchange revenue totaled \$244 million, an increase of 39% sequentially, driven by increased volatility. The negative other trading revenue of \$24 million in the second quarter of 2010 primarily related to credit valuation adjustments (CVA) on derivatives due to widening spreads and lower fixed income trading revenue.

### *Treasury services*

Treasury services fees, which are primarily reported in the Treasury Services segment, include fees related to funds transfer, cash management and liquidity management. Treasury services fees decreased \$7 million compared with the second quarter of 2009 and \$6 million compared with the first quarter of 2010. The decreases compared with both prior periods primarily resulted from lower volumes.

### *Distribution and servicing fees*

Distribution and servicing fees earned from mutual funds are primarily based on average assets in the funds and the sales of funds that we manage or administer and are primarily reported in the Asset Management segment. These fees, which include 12b-1 fees, fluctuate with the overall level of net sales, the relative mix of sales between share classes and the funds' market values.

Distribution and servicing fee revenue decreased \$30 million compared with the second quarter of 2009 and increased \$1 million compared with the first quarter of 2010. The year-over-year decrease primarily reflects lower money market related fees. The impact of distribution and servicing fees on income in any one period can be more than offset by distribution and servicing expense paid to other financial intermediaries to cover their cost for distribution and servicing of mutual funds. Distribution and servicing expense is recorded as noninterest expense on the income statement.

### *Financing-related fees*

Financing-related fees, which are primarily reported in the Treasury Services segment, include capital markets fees, loan commitment fees and credit-related trade fees. Financing-related fees decreased \$6 million compared with the second quarter of 2009 and \$2 million sequentially. The decreases were driven by lower capital markets fees.





**Table of Contents***Investment income*

<b>Investment income</b> <i>(in millions)</i>	<b>2Q10</b>	1Q10	2Q09	<b>Year-to-date</b>	
				<b>2010</b>	2009
Corporate/bank-owned life insurance	\$ 37	\$ 36	\$ 31	\$ 73	\$ 72
Lease residual gains	14	52	(10)	66	16
Equity investment income (loss)	20	12	13	32	(41)
Private equity gains (losses)	6	5	(9)	11	(29)
Seed capital gains (losses)	(5)	3	19	(2)	9
Total investment income	\$ 72	\$ 108	\$ 44	\$ 180	\$ 27

Investment income, which is primarily reported in the Other and Asset Management segments, includes income from insurance contracts, lease residual gains and losses, gains and losses on seed capital investments and private equity investments, and equity investment income (loss). The increase, compared with the second quarter of 2009, primarily reflects higher lease residual and private equity investment gains partially offset by lower seed capital revenue. The decrease, compared to the first quarter of 2010, primarily reflects lower lease residual gains.

*Other revenue*

<b>Other revenue</b> <i>(in millions)</i>	<b>2Q10</b>	1Q10	2Q09	<b>Year-to-date</b>	
				<b>2010</b>	2009
Expense reimbursements from joint ventures	\$ 8	\$ 10	\$ 7	\$ 18	\$ 15
Asset-related gains	3	3	16	6	22
Other income (loss)	62	24	(14)	86	(13)
Total other revenue	\$ 73	\$ 37	\$ 9	\$ 110	\$ 24

Other revenue includes asset-related gains, expense reimbursements from joint ventures and other income (loss). Asset-related gains include loan, real estate and other asset dispositions. Expense reimbursements from joint ventures relate to expenses incurred by BNY Mellon on behalf of joint ventures. Other income (loss) primarily includes foreign currency translation, other investments and various miscellaneous revenues.

Total other revenue increased in the second quarter of 2010 compared with the second quarter of 2009 and the first quarter of 2010 primarily due to positive foreign currency translations.

*Net investment securities gains (losses)*

Net securities gains totaled \$13 million in the second quarter of 2010, compared with net losses of \$256

million in the second quarter of 2009 and net gains of \$7 million in the first quarter of 2010.

The following table details investment securities gains (losses) by type of security. See Consolidated balance sheet review for further information on the investment securities portfolio.

<b>Net securities gains (losses)</b> <i>(in millions)</i>	<b>2Q10</b>	1Q10	2Q09	<b>Year-to-date</b>	
				<b>2010</b>	2009
Alt-A RMBS	\$ (6)	\$ (7)	\$ (114)	\$ (13)	\$ (239)
Prime RMBS	-	-	(9)	-	(12)
Home equity lines of credit	-	-	(4)	-	(22)
European floating rate notes	-	-	(66)	-	(70)
Credit cards	-	-	(26)	-	(28)
Other	19	14	(37)	33	(180)
Net securities gains (losses)	\$ 13	\$ 7	\$ (256)	\$ 20	\$ (551)

*Year-to-date 2010 compared with year-to-date 2009*

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

Fee and other revenue for the first six months of 2010 totaled \$5.2 billion compared with \$4.4 billion in the first six months of 2009. The increase primarily reflects net securities losses reported in 2009, as well as increased investment income, asset servicing fees, asset and wealth management fees and other revenue during the first six months of 2010 offset in part by lower securities lending revenue, distribution and servicing fees, foreign exchange and other trading revenue and issuer and clearing services fees during the first six months of 2010.

Net securities gains were \$20 million for the first six months of 2010 compared with a net loss of \$551 million for the first six months of 2009. The net securities losses in 2009 primarily resulted from deterioration in the credit quality of residential mortgage-backed securities. The increase in asset servicing fees reflects higher market values and net new business during the first six months of 2010. The increase in asset and wealth management fees in the first six months of 2010 reflects improved equity values, the Insight acquisition and the impact of long-term inflows, partially offset by a reduction in fees due to money market outflows and higher fee waivers. The decrease in securities lending revenue in the first six months of 2010 primarily reflects narrower spreads and lower loan balances. The decrease in foreign exchange and other trading revenue in the first six months of 2010 was driven by the CVA on derivatives due to widening credit spreads and lower fixed income trading revenue. The decrease in issuer and clearing services fees in the first six months of 2010 primarily reflects lower money market related distribution fees.

**Table of Contents****Operations of consolidated asset management funds**

On Jan. 1, 2010, we adopted ASC 810. See Notes 2 and 13 in the Notes to Consolidated Financial Statements for additional information. Adoption of this new standard resulted in an increase in consolidated total assets on our balance sheet at June 30, 2010 of \$13.4 billion, or an increase of approximately 6% from Dec. 31, 2009.

We also separately disclosed the following on the income statement.

**Income from consolidated asset management funds, net of noncontrolling interests**

<i>(in millions)</i>	2Q10	1Q10	2Q09	Year-to-date	
				2010	2009
Operations of consolidated asset management funds	\$ 65	\$ 65	\$ -	\$ 130	\$ -
Noncontrolling interest of consolidated asset management funds	33	24	-	57	-
Income from consolidated asset management funds, net of noncontrolling interests	\$ 32	\$ 41	\$ -	\$ 73	\$ -

These line items were previously disclosed on the income statement as:

<i>(in millions)</i>	2Q10	1Q10	2Q09	Year-to-date	
				2010	2009
Asset and wealth management revenue	\$ 29	\$ 25	\$ -	\$ 54	\$ -
Investment income	3	16	-	19	-
Total	\$ 32	\$ 41	\$ -	\$ 73	\$ -

**Net interest revenue**

Net interest revenue	2Q10 vs.			Year-to-date		YTD10 vs. YTD09		
	2Q10	1Q10	2Q09	2Q09	1Q10		2010	2009
<i>(dollars in millions)</i>								
Net interest revenue (non-FTE)	\$ 722	\$ 765	\$ 700	3%	(6)%	\$ 1,487	\$ 1,475	1%
Tax equivalent adjustment	5	5	4	N/M	N/M	10	8	N/M
Net interest revenue (FTE)								
Non-GAAP	\$ 727	\$ 770	\$ 704	3%	(6)%	\$ 1,497	\$ 1,483	1%
Average interest-earning assets	\$ 167,119	\$ 163,429	\$ 157,265	6%	2%	\$ 165,285	\$ 162,318 <sup>(a)</sup>	2%
Net interest margin (FTE)	1.74%	1.89%	1.80%	(6)bps	(15)bps	1.82%	1.84% <sup>(b)</sup>	(2)bps

(a) Excludes the impact of discontinued operations.

(b) Calculated on a continuing operations basis, even though the prior period balance sheet, in accordance with GAAP has not been restated for discontinued operations.

N/M - Not meaningful.

bps - basis points.

Net interest revenue on an FTE basis totaled \$727 million in the second quarter of 2010 compared with \$704 million in the second quarter of 2009 and \$770 million in the first quarter of 2010.

The increase in net interest revenue compared with the second quarter of 2009 principally reflects a higher yield on the restructured investment securities portfolio and a higher level of average interest-earning assets, partially offset by narrowing spreads and a reduction in the duration of placements. The decrease in net interest revenue compared with the first quarter of 2010 primarily reflects our credit strategy to reduce targeted loan exposure, as well as reducing the duration of placements, partially offset by a higher level of average interest-earning assets.

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

The net interest margin was 1.74% in the second quarter of 2010 compared with 1.80% in the second

quarter of 2009 and 1.89% in the first quarter of 2010. The decrease compared with the second quarter of 2009 reflects a higher yield on the restructured investment securities portfolio which was more than offset by narrowing spreads and our credit strategy to reduce targeted loan exposure, as well as a reduction in the duration of placements. The sequential decrease reflects our credit strategy to reduce targeted loan exposure as well as reducing the duration of placements.

*Year-to-date 2010 compared with year-to-date 2009*

Net interest revenue on an FTE basis totaled \$1.5 billion in the first six months of 2010, an increase of 1% compared with the first six months of 2009. The increase primarily reflects the higher yield on the restructured investment securities portfolio and higher hedging gains, partially offset by narrowing

BNY Mellon 11

**Table of Contents**

spreads and a reduction in the duration of placements. The net interest margin was 1.82% in the first six months of 2010, compared with 1.84% in the first six months of 2009. Lower

spreads more than offset the higher yield on the restructured investment securities portfolio.

**Average balances and interest rates****Average balances and interest rates (a)**

<i>(dollar amounts in millions)</i>	June 30, 2010		Quarter ended March 31, 2010		June 30, 2009	
	Average balance	Average rates	Average balance	Average rates	Average balance	Average rates
<b>Assets</b>						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign banks)	\$ 50,741	1.01%	\$ 55,800	1.03%	\$ 56,917	1.18%
Interest-bearing deposits held at the Federal Reserve and other central banks	18,280	0.34	12,129	0.33	6,338	0.37
Federal funds sold and securities under resale agreements	4,652	0.66	3,859	0.71	2,899	1.29
Margin loans	5,786	1.49	5,241	1.49	4,134	1.62
Non-margin loans:						
Domestic offices	20,750	2.89	19,510	3.12	20,740	3.18
Foreign offices	10,128	1.53	9,463	1.62	12,155	2.21
Total non-margin loans	30,878	2.45	28,973	2.63	32,895	2.82
Securities:						
U.S. government obligations	6,162	1.46	6,600	1.40	1,679	1.67
U.S. government agency obligations	19,629	3.48	19,429	3.58	14,748	3.74
State and political subdivisions	638	6.56	670	6.37	710	6.92
Other securities	27,601	4.14	28,653	4.20	34,766	2.85
Trading securities	2,752	2.62	2,075	2.49	2,179	2.50
Total securities	56,782	3.58	57,427	3.63	54,082	3.10
Total interest-earning assets	167,119	2.08%	163,429	2.18%	157,265	2.16%
Allowance for loan losses	(517)		(502)		(426)	
Cash and due from banks	3,673		3,514		3,412	
Other assets	46,266		45,346		45,975	
Assets of discontinued operations	260		898		2,307	
Assets of consolidated asset management funds	12,040		12,730		-	
Total assets	\$ 228,841		\$ 225,415		\$ 208,533	
<b>Liabilities and equity</b>						
Interest-bearing liabilities:						
Money market rate accounts	\$ 24,279	0.10%	\$ 21,741	0.09%	\$ 19,037	0.10%
Savings	1,389	0.27	1,372	0.27	1,070	0.44
Certificates of deposit of \$100,000 & over	332	0.16	648	0.25	942	1.00
Other time deposits	5,902	0.26	5,224	0.30	4,190	0.48
Foreign offices	68,061	0.19	72,049	0.16	73,657	0.14
Total interest-bearing deposits	99,963	0.17	101,034	0.16	98,896	0.16
Federal funds purchased and securities sold under repurchase agreements	4,441	0.19	3,697	0.07	2,485	(0.46)
Other borrowed funds	4,223	2.08	2,805	1.97	2,756	1.04
Payables to customers and broker-dealers	6,596	0.09	6,372	0.08	4,901	0.13
Long-term debt	16,462	1.75	16,808	1.50	16,793	2.35
Total interest-bearing liabilities	131,685	0.43%	130,716	0.36%	125,831	0.46%

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

Total noninterest-bearing deposits	<b>34,628</b>	33,330	32,852
Other liabilities	<b>20,042</b>	18,420	18,578
Liabilities of discontinued operations	<b>260</b>	898	2,307
Liabilities and obligations of consolidated asset management funds	<b>11,046</b>	11,540	-
Total liabilities	<b>197,661</b>	194,904	179,568
Total BNY Mellon shareholders' equity	<b>30,434</b>	29,715	28,934
Noncontrolling interest	<b>58</b>	26	31
Noncontrolling interests of consolidated asset management funds	<b>688</b>	770	-
Total equity	<b>31,180</b>	30,511	28,965
Total liabilities and equity	<b>\$ 228,841</b>	\$ 225,415	\$ 208,533
Net interest margin - Taxable equivalent basis		<b>1.74%</b>	1.89%
			1.80%

(a) Presented on a continuing operations basis even though the balance sheet is not restated for discontinued operations.

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

**Table of Contents****Average balances and interest rates (a)**

	Six months ended			
	June 30, 2010		June 30, 2009	
	Average balance	Average rates	Average balance	Average rates
<i>(dollar amounts in millions)</i>				
<b>Assets</b>				
Interest-earning assets:				
Interest-bearing deposits with banks (primarily foreign banks)	\$ 53,256	1.02%	\$ 56,711	1.37%
Interest-bearing deposits held at the Federal Reserve and other central banks	15,222	0.33	14,719	0.37
Other short-term investments U.S. government-backed commercial paper	-	-	631	3.15
Federal funds sold and securities under resale agreements	4,258	0.68	2,606	1.08
Margin loans	5,515	1.49	4,177	1.62
Non-margin loans:				
Domestic offices	20,134	3.02	21,183	3.04
Foreign offices	9,797	1.58	12,629	2.39
Total non-margin loans	29,931	2.54	33,812	2.80
Securities:				
U.S. government obligations	6,380	1.43	1,236	1.93
U.S. government agency obligations	19,530	3.53	13,413	3.74
State and political subdivisions	654	6.49	738	6.81
Other securities	28,124	4.17	32,320	3.59
Trading securities	2,415	2.57	1,955	2.66
Total securities	57,103	3.60	49,662	3.61
Total interest-earning assets	165,285	2.13%	162,318	2.27%
Allowance for loan losses	(509)		(402)	
Cash and due from banks	3,594		4,114	
Other assets	45,808		45,928	
Assets of discontinued operations	577		2,336	
Assets of consolidated asset management funds	12,383		-	
Total assets	\$ 227,138		\$ 214,294	
<b>Liabilities and equity</b>				
Interest-bearing liabilities:				
Money market rate accounts	\$ 23,017	0.10%	\$ 18,802	0.10%
Savings	1,380	0.27	1,117	0.53
Certificates of deposit of \$100,000 & over	489	0.22	1,208	1.07
Other time deposits	5,566	0.28	4,878	0.52
Foreign offices	70,044	0.18	74,425	0.23
Total interest-bearing deposits	100,496	0.16	100,430	0.23
Federal funds purchased and securities sold under repurchase agreements	4,071	0.14	2,164	(0.23)
Other borrowed funds	3,518	2.03	3,268	1.34
Borrowings from Federal Reserve related to asset-backed commercial paper	-	-	631	2.25
Payables to customers and broker-dealers	6,485	0.08	4,352	0.16
Long-term debt	16,634	1.63	16,147	2.52
Total interest-bearing liabilities	131,204	0.39%	126,992	0.55%
Total noninterest-bearing deposits	33,983		37,924	
Other liabilities	19,236		18,551	
Liabilities of discontinued operations	577		2,336	
Liabilities and obligations of consolidated asset management funds	11,291		-	
Total liabilities	196,291		185,803	
Total BNY Mellon shareholders' equity	30,076		28,458	
Noncontrolling interest	42		33	
Noncontrolling interests of consolidated asset management funds	729		-	
Total equity	30,847		28,491	
Total liabilities and equity	\$ 227,138		\$ 214,294	
Net interest margin Taxable equivalent basis		1.82%		1.84%

(a) Presented on a continuing operations basis even though the balance sheet is not restated for discontinued operations.

Note:

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

*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



**Table of Contents****Noninterest expense**

Noninterest expense <i>(dollars in millions)</i>			2Q10 vs.		Year-to-date		YTD10 vs. YTD09	
	2Q10	1Q10	2Q09	2Q09	1Q10	2010	2009	
Staff:								
Compensation	\$ 763	\$ 753	\$ 740	3%	1%	\$ 1,516	\$ 1,472	3%
Incentives	272	284	241	13	(4)	556	488	14
Employee benefits	199	183	172	16	9	382	362	6
Total staff	1,234	1,220	1,153	7	1	2,454	2,322	6
Professional, legal and other purchased services	256	241	237	8	6	497	474	5
Net occupancy	143	137	142	1	4	280	281	-
Distribution and servicing	106	109	106	-	(3)	215	213	1
Software	91	94	93	(2)	(3)	185	174	6
Furniture and equipment	71	75	76	(7)	(5)	146	153	(5)
Sub-custodian	65	52	60	8	25	117	99	18
Business development	68	52	49	39	31	120	93	29
Other	201	186	233	(14)	8	387	435	(11)
Subtotal	2,235	2,166	2,149	4	3	4,401	4,244	4
Special litigation reserves	N/A	164	N/A	N/M	N/M	164	N/A	N/M
FDIC special assessment	-	-	61	N/M	-	-	61	N/M
Amortization of intangible assets	98	97	108	(9)	1	195	215	(9)
Restructuring charges	(15)	7	6	N/M	N/M	(8)	16	N/M
M&I expenses	14	26	59	(76)	(46)	40	127	(69)
Total noninterest expense	\$ 2,332	\$ 2,460	\$ 2,383	(2)%	(5)%	\$ 4,792	\$ 4,663	3%
Total staff expense as a percent of total revenue	37%	36%	39% (a)			36%	40%	
Employees at period end	42,700	42,300	41,800	2%	1%	42,700	41,800	2%

(a) Total staff expense as a percentage of total revenue excluding net securities gains (losses) was 36% in the second quarter of 2009.

N/A Not applicable.

N/M Not meaningful.

Total noninterest expense decreased \$51 million compared with the second quarter of 2009 and \$128 million compared with the first quarter of 2010. Results for the second quarter of 2009 include the FDIC special assessment. Results for the first quarter of 2010 include a charge for special litigation reserves. Excluding special litigation reserves, the FDIC special assessment, intangible amortization, restructuring charges and M&I expense, noninterest expense increased \$86 million year-over-year and \$69 million sequentially. The year-over-year increase was driven by the impact of the Insight acquisition, as well as higher incentive expense and business development activity. The sequential increase primarily reflects higher support agreement charges, the impact of the annual merit increase, the U.K. bonus tax and higher business development activity.

*Staff expense*

Given our mix of fee-based businesses, which are staffed with high quality professionals, staff expense comprised 55% of total noninterest expense, excluding special litigation reserves, FDIC special

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

The increase in staff expense compared with the second quarter of 2009 reflects the impact of the Insight acquisition and higher incentives primarily in the Asset Management segment. The sequential increase in staff expense reflects the annual merit increase which was effective in the second quarter of 2010. Both increases also include the U.K. bonus tax that was recorded in the second quarter of 2010.

*Non-staff expense*

Non-staff expense includes certain expenses that vary with the levels of business activity and levels of expensed business investments, fixed infrastructure costs and expenses associated with corporate activities related to technology, compliance, productivity initiatives and corporate

development.

Non-staff expense, excluding special litigation reserves, FDIC special assessment, amortization of intangible assets, restructuring charges and M&I expenses, totaled \$1.0 billion in the second quarter of 2010 compared with \$996 million in the second

## **Table of Contents**

quarter of 2009 and \$946 million in the first quarter of 2010. The increase compared with the second quarter of 2009 primarily reflects the impact of the Insight acquisition and higher business development activity, higher professional, legal and other purchased services, partially offset by lower other expense. The increase compared with the first quarter of 2010 reflects higher support agreement charges resulting from a quarterly change in the market value of Lehman securities, higher professional, legal and other purchased services and higher business development activity.

Given the severity of the economic downturn, the financial services industry has seen an increase in the level of legal activity. As a result, we anticipate litigation costs for the remainder of 2010 to exceed historic trend levels. For additional information on litigation matters, see Note 18 of the Notes to Consolidated Financial Statements.

For additional information on restructuring charges, see Note 11 of the Notes to Consolidated Financial Statements.

In the second quarter of 2010, we incurred \$14 million of M&I expenses primarily related to the mergers with Mellon Financial Corporation and the integration of Global Investment Servicing.

### *Year-to-date 2010 compared with year-to-date 2009*

Noninterest expense in the first six months of 2010 increased \$129 million, or 3%, compared with the first six months of 2009. The increase primarily reflects the special litigation reserves, the impact of the Insight acquisition, higher incentives, professional, legal and other purchased services and business development activity, partially offset by the FDIC special assessment in the second quarter of 2009, as well as lower M&I expenses and a recovery of restructuring charges.

## **Income taxes**

The effective tax rate on a continuing operations basis for the second quarter of 2010 was 30.2%, compared with 2.2% in the second quarter of 2009 and 29.1% in the first quarter of 2010. Excluding the impact of tax benefits, the FDIC special assessment, M&I expenses and net securities losses, the effective tax rate was 32.4% in the second quarter of 2009. Excluding the impact of special litigation reserves, restructuring charges and M&I

expenses, the effective tax rate was 31.0% in the first quarter of 2010.

We expect the effective tax rate to be approximately 30-31% for the third quarter of 2010.

## **Business segments review**

We have an internal information system that produces performance data for our seven business segments along product and service lines.

### *Business segments accounting principles*

Our segment 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 segments will track their economic performance.

Segment results are subject to reclassification whenever improvements are made in the measurement principles or when organizational changes are made.

The accounting policies of the business segments are the same as those described in Note 1 to the Consolidated Financial Statements in BNY Mellon's 2009 Annual Report on Form 10-K. In addition, client deposits serve as the primary funding source for our investment securities portfolio and we typically allocate all interest revenue to the businesses generating the deposits. Accordingly, the higher yield related to the restructured investment securities portfolio has been included in the segment results.

The operations of acquired businesses are integrated with the existing business segments soon after acquisitions are completed. As a result of the integration of staff support functions, management of customer relationships, operating processes and the financial impact of funding acquisitions, we cannot precisely determine the impact of acquisitions on income before taxes and therefore do not report it.

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

For additional information on the primary types of revenue by business segment and how our business segments are presented and analyzed, see the Business segments review and Note 28 in BNY Mellon's 2009 Annual Report on Form 10-K.

BNY Mellon 15

**Table of Contents**

Business segment information is reported on a continuing operations basis for all periods presented. See Note 4 to the Notes to Consolidated Financial Statements for a discussion of discontinued operations.

Our business segments continued to face a challenging operating environment in the second quarter of 2010. Year-over-year higher market values and new business benefited the Asset and Wealth management segments, while a continued low level of debt issuances in the global markets and a lower level of corporate actions negatively impacted results in Issuer Services. Results in Asset Servicing benefited from higher market values and new business but were negatively impacted by lower foreign currency volatility as well as narrower spreads and lower loan balances in securities lending. Money market fee waivers also continue to suppress results in Asset Management, Issuer and Clearing Services. On a sequential basis, new business, higher transaction volumes and seasonally higher Depository Receipts were primarily offset by

lower market values. Compared with the second quarter of 2009, net interest revenue increased in nearly all segments driven by the higher yield related to the restructured investment securities portfolio and a higher level of interest-earning assets. Sequentially, net interest revenue decreased in the Institutional Services sector reflecting our credit strategy to reduce targeted loan exposure, as well as lower spreads.

Net securities gains (losses) are recorded in the Other segment. Noninterest expense increased in nearly every segment compared with both the second quarter of 2009 and the first quarter of 2010 primarily due to the impact of the annual merit increase which was effective in the second quarter of 2010 and higher business development activity. In addition, year-over-year results in the Asset Management segment were impacted by the Insight acquisition. Year-over-year and sequential results in the Asset Servicing segment were impacted by increases in support agreement charges due to a decrease in the market value of Lehman securities.

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

Market indices						2Q10 vs.		Year-to-date		YTD10 vs. YTD09
	2Q09	3Q09	4Q09	1Q10	2Q10	2Q09	1Q10	2010	2009	
S&P 500 Index (a)	919	1057	1115	1169	<b>1031</b>	<b>12%</b>	<b>(12)%</b>	<b>1031</b>	919	<b>12%</b>
S&P 500 Index daily average	891	995	1088	1123	<b>1135</b>	<b>27</b>	<b>1</b>	<b>1129</b>	851	<b>33</b>
FTSE 100 Index (a)	4249	5134	5413	5680	<b>4917</b>	<b>16</b>	<b>(13)</b>	<b>4917</b>	4249	<b>16</b>
FTSE 100 Index daily average	4258	4708	5235	5431	<b>5361</b>	<b>26</b>	<b>(1)</b>	<b>5394</b>	4149	<b>30</b>
NASDAQ Composite Index (a)	1835	2122	2269	2398	<b>2109</b>	<b>15</b>	<b>(12)</b>	<b>2109</b>	1835	<b>15</b>
Lehman Brothers Aggregate Bond <sup>sm</sup> Index (a)	280	304	301	300	<b>299</b>	<b>7</b>	<b>-</b>	<b>299</b>	280	<b>7</b>
MSCI EAFE <sup>®</sup> Index (a)	1307	1553	1581	1584	<b>1348</b>	<b>3</b>	<b>(15)</b>	<b>1348</b>	1307	<b>3</b>
NYSE Share Volume (in billions)	151	126	112	103	<b>140</b>	<b>(7)</b>	<b>36</b>	<b>243</b>	312	<b>(22)</b>
NASDAQ Share Volume (in billions)	152	144	131	143	<b>159</b>	<b>5</b>	<b>11</b>	<b>302</b>	288	<b>5</b>

(a) Period end.

Average daily U.S. fixed-income trading volume was up 2% sequentially and 7% year-over-year. Total debt issuances were down 36% sequentially and 32% year-over-year.

The period end S&P 500 Index decreased 12% sequentially and increased 12% year-over-year. The period end FTSE 100 Index decreased 13% sequentially and increased 16% year-over-year. On a daily average basis, the S&P 500 Index increased 1% sequentially and 27% year-over-year and the FTSE 100 Index decreased 1% sequentially and increased 26% year-over-year. The period end NASDAQ Composite Index decreased 12% sequentially and increased 15% year-over-year.

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

The changes in the value of market indices impact fee revenue in the Asset and Wealth Management segments and our securities servicing businesses.

At June 30, 2010, using the S&P 500 Index as a proxy for the equity markets, we estimate that a 100 point change in the value of the S&P 500 Index, sustained for one year, would impact fee revenue by approximately 1-2% and fully diluted earnings per common share on a continuing operations basis by \$0.06-\$0.07.

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

**Table of Contents**

For the quarter ended

June 30, 2010	Total Asset and Wealth				Total Institutional Services				Other Segment	Total continuing operations
	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Services Sector		
<i>(dollar amounts in millions)</i>										
Fee and other revenue	\$ 637 <sup>(a)</sup>	\$ 147	\$ 784	\$ 906	\$ 380	\$ 276	\$ 196	\$ 1,758	\$ 61	\$ 2,603 <sup>(a)</sup>
Net interest revenue	1	56	57	216	216	93	161	686	(21)	722
Total revenue	638	203	841	1,122	596	369	357	2,444	40	3,325
Provision for credit losses	-	-	-	-	-	-	-	-	20	20
Noninterest expense	517	154	671	786	339	277	193	1,595	66	2,332
Income before taxes	\$ 121 <sup>(a)</sup>	\$ 49	\$ 170	\$ 336	\$ 257	\$ 92	\$ 164	\$ 849	\$ (46)	\$ 973 <sup>(a)</sup>
Pre-tax operating margin <sup>(b)</sup>	19%	24%	20%	30%	43%	25%	46%	35%	N/M	29%
Average assets	\$ 24,895	\$ 10,399	\$ 35,294	\$ 62,940	\$ 48,938	\$ 21,550	\$ 26,485	\$ 159,913	\$ 33,374	\$ 228,581 <sup>(c)</sup>
Excluding intangible amortization:										
Noninterest expense	\$ 467	\$ 145	\$ 612	\$ 781	\$ 318	\$ 270	\$ 188	\$ 1,557	\$ 65	\$ 2,234
Income before taxes	171	58	229	341	278	99	169	887	(45)	1,071
Pre-tax operating margin <sup>(b)</sup>	27%	28%	27%	30%	47%	27%	47%	36%	N/M	32%

(a) Total fee and other revenue and income before taxes for the second quarter of 2010 includes income from consolidated asset management funds of \$65 million net of income attributable to noncontrolling interests of \$33 million. The net of these income statement line items of \$32 million is included above in fee and other revenue.

(b) Income before taxes divided by total revenue.

(c) Including average assets of discontinued operations of \$260 million for the second quarter of 2010, consolidated average assets were \$228,841 million. N/M - Not meaningful.

For the quarter ended

March 31, 2010	Total Asset and Wealth				Total Institutional Services				Other Segment	Total continuing operations
	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Services Sector		
<i>(dollar amounts in millions)</i>										
Fee and other revenue	\$ 649 <sup>(a)</sup>	\$ 146	\$ 795	\$ 798	\$ 358	\$ 271	\$ 225	\$ 1,652	\$ 143	\$ 2,590 <sup>(a)</sup>
Net interest revenue	-	55	55	210	252	95	176	733	(23)	765
Total revenue	649	201	850	1,008	610	366	401	2,385	120	3,355
Provision for credit losses	-	-	-	-	-	-	-	-	35	35
Noninterest expense	503	145	648	723	324	261	188	1,496	316	2,460
Income before taxes	\$ 146 <sup>(a)</sup>	\$ 56	\$ 202	\$ 285	\$ 286	\$ 105	\$ 213	\$ 889	\$ (231)	\$ 860 <sup>(a)</sup>
Pre-tax operating margin <sup>(b)</sup>	23%	28%	24%	28%	47%	29%	53%	37%	N/M	26%
Average assets	\$ 25,187	\$ 9,722	\$ 34,909	\$ 59,704	\$ 52,838	\$ 20,338	\$ 26,716	\$ 159,596	\$ 30,012	\$ 224,517 <sup>(c)</sup>
Excluding intangible amortization:										
Noninterest expense	\$ 453	\$ 136	\$ 589	\$ 717	\$ 304	\$ 255	\$ 182	\$ 1,458	\$ 316	\$ 2,363
Income before taxes	196	65	261	291	306	111	219	927	(231)	957
Pre-tax operating margin <sup>(b)</sup>	30%	32%	31%	29%	50%	30%	55%	39%	N/M	29%

(a) Total fee and other revenue and income before taxes for the first quarter of 2010 includes income from consolidated asset management funds of \$65 million net of income attributable to noncontrolling interests of \$24 million. The net of these income statement line items of \$41 million is included above in fee and other revenue.

(b) Income before taxes divided by total revenue.

(c) Including average assets of discontinued operations of \$898 million for the first quarter of 2010, consolidated average assets were \$225,415 million. N/M - Not meaningful.

**Table of Contents**
**For the quarter ended Dec. 31, 2009**

	Total Asset and Wealth			Total Institutional Services					Other Segment	Total continuing operations
(dollar amounts in millions)	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Services Sector		
Fee and other revenue	\$ 680	\$ 151	\$ 831	\$ 816	\$ 410	\$ 264	\$ 222	\$ 1,712	\$ 52	\$ 2,595
Net interest revenue	3	46	49	205	203	90	148	646	29	724
Total revenue	683	197	880	1,021	613	354	370	2,358	81	3,319
Provision for credit losses	-	1	1	-	-	-	-	-	64	65
Noninterest expense	521	149	670	789	338	248	193	1,568	344	2,582
Income before taxes	\$ 162	\$ 47	\$ 209	\$ 232	\$ 275	\$ 106	\$ 177	\$ 790	\$ (327)	\$ 672
Pre-tax operating margin (a)	24%	24%	24%	23%	45%	30%	48%	34%	N/M	20%
Average assets	\$ 12,859	\$ 9,246	\$ 22,105	\$ 59,980	\$ 52,028	\$ 20,365	\$ 26,275	\$ 158,648	\$ 31,459	\$ 212,212 (b)
Excluding intangible amortization:										
Noninterest expense	\$ 465	\$ 138	\$ 603	\$ 783	\$ 318	\$ 241	\$ 187	\$ 1,529	\$ 343	\$ 2,475
Income before taxes	218	58	276	238	295	113	183	829	(326)	779
Pre-tax operating margin (a)	32%	29%	31%	23%	48%	32%	50%	35%	N/M	23%

(a) Income before taxes divided by total revenue.

(b) Including average assets of discontinued operations of \$1,993 million for the fourth quarter of 2009, consolidated average assets were \$214,205 million.  
N/M Not meaningful.

**For the quarter ended Sept. 30, 2009**

	Total Asset and Wealth			Total Institutional Services					Other Segment	Total continuing operations
(dollar amounts in millions)	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Services Sector		
Fee and other revenue	\$ 592	\$ 146	\$ 738	\$ 845	\$ 389	\$ 291	\$ 206	\$ 1,731	\$ (4,685)	\$ (2,216)
Net interest revenue	7	49	56	229	180	81	149	639	21	716
Total revenue	599	195	794	1,074	569	372	355	2,370	(4,664)	(1,500)
Provision for credit losses	-	-	-	-	-	-	-	-	147	147
Noninterest expense	500	147	647	735	324	251	186	1,496	175	2,318
Income before taxes	\$ 99	\$ 48	\$ 147	\$ 339	\$ 245	\$ 121	\$ 169	\$ 874	\$ (4,986)	\$ (3,965)
Pre-tax operating margin (a)	16%	25%	19%	32%	43%	33%	48%	37%	N/M	N/M
Average assets	\$ 12,424	\$ 9,122	\$ 21,546	\$ 59,914	\$ 47,975	\$ 17,827	\$ 24,223	\$ 149,939	\$ 32,224	\$ 203,709 (b)
Excluding intangible amortization:										
Noninterest expense	\$ 447	\$ 135	\$ 582	\$ 729	\$ 304	\$ 245	\$ 180	\$ 1,458	\$ 174	\$ 2,214
Income before taxes	152	60	212	345	265	127	175	912	(4,985)	(3,861)
Pre-tax operating margin (a)	25%	31%	27%	32%	47%	34%	49%	38%	N/M	N/M

(a) Income before taxes divided by total revenue.

(b) Including average assets of discontinued operations of \$2,077 million for the third quarter of 2009, consolidated average assets were \$205,786 million.  
N/M Not meaningful.



**Table of Contents****For the quarter ended****June 30, 2009***(dollar amounts*

<i>in millions)</i>	Asset Management	Wealth Management	Total Asset and Wealth Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total continuing operations
Fee and other revenue	\$ 529	\$ 140	\$ 669	\$ 904	\$ 413	\$ 314	\$ 180	\$ 1,811	\$ (223)	\$ 2,257
Net interest revenue	7	49	56	211	185	87	157	640	4	700
Total revenue	536	189	725	1,115	598	401	337	2,451	(219)	2,957
Provision for credit losses	-	-	-	-	-	-	-	-	61	61
Noninterest expense	474	147	621	715	325	263	198	1,501	261	2,383
Income before taxes	\$ 62	\$ 42	\$ 104	\$ 400	\$ 273	\$ 138	\$ 139	\$ 950	\$ (541)	\$ 513
Pre-tax operating margin (a)	12%	22%	14%	36%	46%	34%	41%	39%	N/M	17%
Average assets	\$ 12,404	\$ 9,131	\$ 21,535	\$ 58,339	\$ 52,161	\$ 17,014	\$ 24,764	\$ 152,278	\$ 32,413	\$ 206,226 (b)
Excluding intangible amortization:										
Noninterest expense	\$ 419	\$ 136	\$ 555	\$ 706	\$ 305	\$ 256	\$ 191	\$ 1,458	\$ 262	\$ 2,275
Income before taxes	117	53	170	409	293	145	146	993	(542)	621
Pre-tax operating margin (a)	22%	28%	23%	37%	49%	36%	43%	41%	N/M	21%

(a) *Income before taxes divided by total revenue.*(b) *Including average assets of discontinued operations of \$2,307 million for the second quarter of 2009, consolidated average assets were \$208,533 million.**N/M Not meaningful.***For the six months ended****June 30, 2010***(dollar amounts*

<i>in millions)</i>	Asset Management	Wealth Management	Total Asset and Wealth Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total continuing operations
Fee and other revenue	\$ 1,286 (a)	\$ 293	\$ 1,579	\$ 1,704	\$ 738	\$ 547	\$ 421	\$ 3,410	\$ 204	\$ 5,193 (a)
Net interest revenue	1	111	112	426	468	188	337	1,419	(44)	1,487
Total revenue	1,287	404	1,691	2,130	1,206	735	758	4,829	160	6,680
Provision for credit losses	-	-	-	-	-	-	-	-	55	55
Noninterest expense	1,020	299	1,319	1,509	663	538	381	3,091	382	4,792
Income before taxes	\$ 267 (a)	\$ 105	\$ 372	\$ 621	\$ 543	\$ 197	\$ 377	\$ 1,738	\$ (277)	\$ 1,833 (a)
Pre-tax operating margin (b)	21%	26%	22%	29%	45%	27%	50%	36%	N/M	27%
Average assets	\$ 25,040	\$ 10,063	\$ 35,103	\$ 61,331	\$ 50,877	\$ 20,947	\$ 26,600	\$ 159,755	\$ 31,703	\$ 226,561 (c)
Excluding intangible amortization:										
Noninterest expense	\$ 920	\$ 281	\$ 1,201	\$ 1,498	\$ 622	\$ 525	\$ 370	\$ 3,015	\$ 381	\$ 4,597
Income before taxes	367	123	490	632	584	210	388	1,814	(276)	2,028
Pre-tax operating margin (b)	28%	30%	29%	30%	48%	29%	51%	38%	N/M	30%

(a) *Total fee and other revenue and income before taxes for the first six months of 2010 includes income from consolidated asset management funds of \$130 million net of income attributable to noncontrolling interests of \$57 million. The net of these income statement line items of \$73 million is included above in fee and other revenue.*(b) *Income before taxes divided by total revenue.*(c) *Including average assets of discontinued operations of \$577 million for the six months ended June 30, 2010, consolidated average assets were \$227,138 million.*

*N/M Not meaningful.*

**Table of Contents**

**For the six months ended June 30, 2009**

<i>(dollar amounts in millions)</i>	Total Asset and Wealth Management			Total						
	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Institutional Services Sector	Other Segment	Total continuing operations
Fee and other revenue	\$ 1,008	\$ 281	\$ 1,289	\$ 1,745	\$ 818	\$ 635	\$ 407	\$ 3,605	\$ (501)	\$ 4,393
Net interest revenue	22	99	121	460	385	169	316	1,330	24	1,475
Total revenue	1,030	380	1,410	2,205	1,203	804	723	4,935	(477)	5,868
Provision for credit losses	-	-	-	-	-	-	-	-	120	120
Noninterest expense	927	287	1,214	1,432	643	522	393	2,990	459	4,663
Income before taxes	\$ 103	\$ 93	\$ 196	\$ 773	\$ 560	\$ 282	\$ 330	\$ 1,945	\$ (1,056)	\$ 1,085
Pre-tax operating margin (a)	10%	24%	14%	35%	47%	35%	46%	39%	N/M	18%
Average assets	\$ 12,533	\$ 9,370	\$ 21,903	\$ 61,752	\$ 51,516	\$ 17,803	\$ 26,704	\$ 157,775	\$ 32,280	\$ 211,958 (b)
Excluding intangible amortization:										
Noninterest expense	\$ 817	\$ 265	\$ 1,082	\$ 1,416	\$ 602	\$ 508	\$ 380	\$ 2,906	\$ 460	\$ 4,448
Income before taxes	213	115	328	789	601	296	343	2,029	(1,057)	1,300
Pre-tax operating margin (a)	21%	30%	23%	36%	50%	37%	47%	41%	N/M	22%

(a) Income before taxes divided by total revenue.

(b) Including average assets of discontinued operations of \$2,336 million for the six months ended June 30, 2009, consolidated average assets were \$214,294 million.

N/M Not meaningful.

**Asset and Wealth Management Sector**

Asset and Wealth Management fee revenue is 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 \$1.0 trillion at June 30, 2010, compared with \$1.1 trillion at March 31, 2010 and \$926 billion at June 30, 2009.

The increase compared with June 30, 2009 primarily reflects the acquisition of Insight Investment Management ( Insight ) in the fourth quarter of 2009. The sequential decrease primarily reflects lower market values.

Net asset outflows in the second quarter of 2010 totaled \$5 billion, reflecting \$17 billion of money market outflows, partially offset by \$12 billion of long-term inflows.

**AUM at period end, by product type**

<i>(in billions)</i>	June 30, 2009	Sept. 30, 2009	Dec. 31 2009	March 31, 2010	June 30, 2010
Equity securities	\$ 289	\$ 328	\$ 339	\$ 346	\$ 309
Money market	393	376	360	335	317
Fixed income securities	159	169	235	234	239
Alternative investments and overlay	85	93	181	190	182
Total AUM	\$ 926	\$ 966	\$ 1,115	\$ 1,105	\$ 1,047

**AUM at period end, by client type**

<i>(in billions)</i>	June 30, 2009	Sept. 30, 2009	Dec. 31 2009	March 31, 2010	June 30, 2010
----------------------	------------------	----------------------	-----------------	-------------------	------------------

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

Institutional	\$ 425	\$ 461	\$ 611	\$ 620	\$ 595
Mutual funds	421	421	416	396	370
Private client	80	84	88	89	82
Total AUM	\$ 926	\$ 966	\$ 1,115	\$ 1,105	\$ 1,047

20 BNY Mellon

**Table of Contents****Changes in market value of AUM from March 31, 2010 to June 30, 2010 by business segment**

<i>(in billions)</i>	Asset Management	Wealth Management	Total
Market value of AUM at March 31, 2010:	\$ 1,029	\$ 76	\$ 1,105
Net inflows (outflows):			
Long-term	13	(1)	12
Money market	(17)	-	(17)
Total net inflows (outflows)	(4)	(1)	(5)
Net market/currency impact	(49)	(4)	(53)
<b>Market value of AUM at June 30, 2010</b>	<b>\$ 976<sup>(a)</sup></b>	<b>\$ 71<sup>(b)</sup></b>	<b>\$ 1,047</b>

(a) Excludes \$4 billion subadvised for the Wealth Management segment.

(b) Excludes private client assets managed in the Asset Management segment.

**Asset Management segment**

*(dollar amounts in millions,*

<i>unless otherwise noted)</i>	2Q09	3Q09	4Q09	1Q10	2Q10	2Q10 vs. 2Q09	1Q10	Year-to-date 2010	2009	YTD10 vs. YTD09
<b>Revenue:</b>										
<b>Asset and wealth management:</b>										
Mutual funds	\$ 266	\$ 274	\$ 266	\$ 242	\$ 242	(9)%	-%	\$ 484	\$ 529	(9)%
Institutional clients	175	197	227	264	264	51	-	528	356	48
Private clients	31	34	38	38	37	19	(3)	75	63	19
Performance fees	26	1	59	13	19	(27)	46	32	33	(3)
Total asset and wealth management revenue	498	506	590	557	562	13	1	1,119	981	14
Distribution and servicing	90	84	84	75	75	(17)	-	150	182	(18)
Other	(59)	2	6	17	-	N/M	N/M	17	(155)	N/M
Total fee and other revenue (a)	529	592	680	649	637	20	(2)	1,286	1,008	28
Net interest revenue	7	7	3	-	1	N/M	N/M	1	22	N/M
Total revenue (b)	536	599	683	649	638	19	(2)	1,287	1,030	25
<b>Noninterest expense (ex. intangible amortization and support agreement charges)</b>										
	419	415	465	453	474	13	5	927	831	12
<b>Income before taxes (ex. intangible amortization and support agreement charges)</b>										
	117	184	218	196	164	40	(16)	360	199	81
Amortization of intangible assets	55	53	56	50	50	(9)	-	100	110	(9)
Support agreement charges	-	32	-	-	(7)	N/M	N/M	(7)	(14)	N/M
Income before taxes	\$ 62	\$ 99	\$ 162	\$ 146	\$ 121	95%	(17)%	\$ 267	\$ 103	159%
<b>Memo: Income before taxes (ex. intangible amortization)</b>										
	\$ 117	\$ 152	\$ 218	\$ 196	\$ 171	46%	(13)%	\$ 367	\$ 213	72%
Pre-tax operating margin	12%	16%	24%	23%	19%			21%	10%	
Pre-tax operating margin (ex. intangible amortization) (c)	22%	25%	32%	30%	27%			28%	21%	
AUM (in billions) (d)	\$ 860	\$ 897	\$ 1,045	\$ 1,034	\$ 980	14%	(5)%	\$ 980	\$ 860	14%
<b>AUM net inflows (outflows):</b>										
Long-term (in billions)	\$ (18)	\$ (2)	\$ 13	\$ 15	\$ 13			\$ 28	\$ (20)	
Money-market (in billions)	\$ (2)	\$ (14)	\$ (22)	\$ (25)	\$ (17)			\$ (42)	\$ (13)	

(a) Total fee and other revenue for the first and second quarters and year-to-date 2010 includes income from consolidated asset management funds of \$65 million, \$65 million and \$130 million, respectively, and income attributable to noncontrolling interests of \$24 million, \$33 million and \$57 million, respectively. The net of these income statement line items for the first and second quarters and year-to-date 2010 of \$41 million, \$32 million and \$73 million, respectively, is included above in institutional client revenue of \$25 million, \$29 million and \$54 million, respectively, and other revenue of \$16 million, \$3 million and \$19 million, respectively.

(b) Investment securities gains (losses) were \$(45) million in 2Q09, \$- million in 3Q09, \$1 million in 4Q09, \$- million in 1Q10 and \$1 million in 2Q10. Excluding investment securities gains (losses), the total revenue growth rate 2Q10 vs. 2Q09 was 10%.

(c)

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

*The pre-tax operating margin, excluding intangible amortization, support agreement charges and investment securities gains (losses) was 28% for 2Q09, 31% for 3Q09, 32% for 4Q09, 30% for 1Q10, 26% for 2Q10, 28% for the first six months of 2010 and 25% for the first six months of 2009.*

*(d) Includes \$3 billion, \$5 billion, \$5 billion, \$5 billion and \$4 billion subadvised for the Wealth Management segment, respectively.*

*N/M Not meaningful.*

BNY Mellon 21

## **Table of Contents**

### *Business description*

BNY Mellon Asset Management is the umbrella organization for our affiliated investment management boutiques and is responsible, through various subsidiaries, for U.S. and non-U.S. retail, intermediary and institutional distribution of investment management and related services. The investment management boutiques offer a broad range of equity, fixed income, cash and alternative/overlay products. In addition to the investment subsidiaries, BNY Mellon Asset Management includes BNY Mellon Asset Management International, which is responsible for the distribution of investment management products internationally, and the Dreyfus Corporation and its affiliates, which are responsible for U.S. distribution of retail mutual funds, separate accounts and annuities. We are one of the world's largest asset managers with a top 10 position in both the U.S. and Europe and 11<sup>th</sup> position globally.

In July 2010, the China Securities Regulatory Commission ( CSRC ) authorized BNY Mellon and Western Securities to establish a joint venture fund management company in China. The new company, BNY Mellon Western Fund Management Company Limited, will be owned by BNY Mellon (49%) and Western Securities (51%). BNY Mellon Western Fund Management will initially manage domestic Chinese securities in a range of local retail fund products. Over time, the venture expects to develop further products using the scale and expertise of the broader BNY Mellon group. BNY Mellon Western Fund Management will also focus on leveraging distribution within the Chinese banking and securities sectors, building awareness of the new company in the region.

The results of the Asset Management segment are mainly driven by the period end and average levels of assets managed as well as the mix of those assets, as previously shown. Results for this segment are also impacted by sales of fee-based products such as fixed and variable annuities and separately managed accounts. In addition, performance fees may be generated when the investment performance exceeds various benchmarks and satisfies other criteria. Expenses in this segment are mainly driven by staffing costs, incentives, distribution and servicing expense, and product distribution costs.

In November 2009, we acquired Insight which specializes in liability-driven investment solutions, active fixed income and alternative investments. At

acquisition, Insight had approximately \$138 billion in assets under management.

Also, in November 2009, BNY Mellon acquired a 20% minority interest in Siguler Guff & Company, LLC (and certain related entities) ( Siguler Guff ), a multi-strategy private equity firm. At acquisition, Siguler Guff had approximately \$8 billion in assets under management and committed capital.

### *Review of financial results*

In the second quarter of 2010, Asset Management had pre-tax income of \$121 million compared with \$62 million in the second quarter of 2009 and \$146 million in the first quarter of 2010. Excluding amortization of intangible assets, pre-tax income was \$171 million in the second quarter of 2010 compared with \$117 million in the second quarter of 2009 and \$196 million in the first quarter of 2010.

The Asset Management segment generated 600 basis points of positive operating leverage compared with the second quarter of 2009, excluding intangible amortization and support agreement charges.

Asset and wealth management revenue in the Asset Management segment was \$562 million in the second quarter of 2010 compared with \$498 million in the second quarter of 2009 and \$557 million in the first quarter of 2010. Excluding performance fees, asset and wealth management fee revenue increased 15% compared with the prior year period and was unchanged sequentially. The increase year-over-year reflects improved equity values, the impact of the Insight acquisition and new business, partially offset by a reduction in fees due to money market outflows and higher fee waivers. Sequentially, the impact of new business was more than offset by lower market values. Performance fees were \$19 million in the second quarter of 2010 compared with \$26 million in the second quarter of 2009 and \$13 million in the first quarter of 2010.

In the second quarter of 2010, net long-term inflows of \$13 billion were more than offset by \$17 billion of money market outflows. Long-term inflows benefited from strength in institutional fixed income and global equity products and the fifth consecutive quarter of positive flows in retail funds.

In the second quarter of 2010, 43% of Asset and Wealth Management fees in the Asset Management segment were generated from managed mutual fund fees. These fees are based on the daily average net





**Table of Contents**

assets of each fund and the basis point management fee paid by that fund. Managed mutual fund fee revenue was \$242 million in the second quarter of 2010 compared with \$266 million in the second quarter of 2009 and \$242 million in the first quarter of 2010. The year-over-year decrease reflects outflows in money market funds and higher fee waivers.

Distribution and servicing fees were \$75 million in the second quarter of 2010 compared with \$90 million in the second quarter of 2009 and \$75 million in the first quarter of 2010. The year-over-year decrease primarily reflects lower money market inflows.

There was no other fee revenue in the second quarter of 2010 compared with a loss of \$59 million in the second quarter of 2009 and gains of \$17 million in the first quarter of 2010. The comparison with the second quarter of 2009 primarily reflects investment write-downs in the second quarter of 2009.

Revenue generated in the Asset Management segment includes 49% from non-U.S. sources in the second quarter of 2010 compared with 50% in the first quarter of 2010. Excluding investment securities losses in the second quarter of 2009, revenue includes 40% generated from non U.S. sources.

Noninterest expense (excluding amortization of intangible assets and support agreement charges) was \$474 million in the second quarter of 2010 compared with \$419 million in the second quarter of 2009 and \$453 million in the first quarter of 2010. The year-over-year increase primarily reflects the Insight acquisition and higher incentive expense. The sequential increase reflects higher incentive expense and the impact of the annual merit increase.

*Year-to-date 2010 compared with year-to-date 2009*

Income before taxes totaled \$267 million in the first six months of 2010 compared with \$103 million in the first six months of 2009. Income before taxes (excluding intangible amortization) was \$367 million in the first six months of 2010 compared with \$213 million in the first six months of 2009. Fee and other revenue increased \$278 million, primarily due to improved global market values, the impact of the Insight acquisition, the impact of long-term inflows and investment write-downs in the first half of 2009. Noninterest expense (excluding intangible amortization and support agreement charges) increased \$96 million in the first six months of 2010 compared with the first six months of 2009, primarily due to the Insight acquisition and higher incentive expense.

**Table of Contents***Wealth Management segment*

<i>(dollar amounts in millions, unless otherwise noted)</i>						<b>2Q10 vs.</b>		<b>Year-to-date</b>		<b>YTD10 vs.</b>
	<b>2Q09</b>	<b>3Q09</b>	<b>4Q09</b>	<b>1Q10</b>	<b>2Q10</b>	<b>2Q09</b>	<b>1Q10</b>	<b>2010</b>	<b>2009</b>	<b>YTD09</b>
<b>Revenue:</b>										
Asset and wealth management	\$ 128	\$ 133	\$ 136	\$ 136	\$ 134	5%	(1)%	\$ 270	\$ 250	8%
Other	12	13	15	10	13	8	30	23	31	(26)
Total fee and other revenue	140	146	151	146	147	5	1	293	281	4
Net interest revenue	49	49	46	55	56	14	2	111	99	12
Total revenue	189	195	197	201	203	7	1	404	380	6
Provision for credit losses	-	-	1	-	-	N/M	N/M	-	-	N/M
Noninterest expense (ex. intangible amortization)	136	135	138	136	145	7	7	281	265	6
Income before taxes (ex. intangible amortization)	53	60	58	65	58	9	(11)	123	115	7
Amortization of intangible assets	11	12	11	9	9	(18)	-	18	22	(18)
Income before taxes	\$ 42	\$ 48	\$ 47	\$ 56	\$ 49	17%	(13)%	\$ 105	\$ 93	13%
Pre-tax operating margin	22%	25%	24%	28%	24%			26%	24%	
Pre-tax operating margin (ex. intangible amortization)	28%	31%	29%	32%	28%			30%	30%	
Average loans	\$ 5,684	\$ 6,010	\$ 6,191	\$ 6,302	\$ 6,350	12%	1%	\$ 6,326	\$ 5,536	14%
Average assets	9,131	9,122	9,246	9,722	10,399	14	7	10,063	9,370	7
Average deposits	6,628	6,602	6,804	7,310	7,991	21	9	7,652	6,842	12
Market value of total client assets under management and custody at period end <i>(in billions)</i>	\$ 142	\$ 151	\$ 154	\$ 157	\$ 150	6%	(4)%	\$ 150	\$ 142	6%

*N/M Not meaningful.*

*Business description*

In the Wealth Management segment, we offer a full array of investment management, wealth and estate planning and private banking solutions to help clients protect, grow and transfer their wealth. Clients include high net worth individuals, families, endowments and foundations and related entities. BNY Mellon Wealth Management is a top 10 U.S. wealth manager with \$150 billion in client assets. We serve our clients through an expansive network of office sites in 17 states and 3 countries, including 16 of the top 25 domestic wealth markets.

The results of the Wealth Management segment are driven by the level and mix of assets managed and under custody, and the level of activity in client accounts. Net interest revenue is determined by the level of interest rate spread between loans and deposits. Expenses of this segment are driven mainly by staff expense in the investment management, sales, service and support groups.

*Review of financial results*

Income before taxes was \$49 million in the second quarter of 2010, compared with \$42 million in the

second quarter of 2009 and \$56 million in the first quarter of 2010. Income before taxes, excluding intangible amortization, was \$58 million in the second quarter of 2010, compared with \$53 million in the second quarter of 2009 and \$65 million in the first quarter of 2010.

Total fee and other revenue was \$147 million in the second quarter of 2010, compared with \$140 million in the second quarter of 2009 and \$146 million in the first quarter of 2010. The increase compared with the second quarter of 2009 reflects organic growth, the impact of higher equity markets and increased capital markets fees. Fee and other revenue increased sequentially due to organic growth and higher capital markets fees, partially offset by lower equity markets.

Client assets under management and custody were \$150 billion at June 30, 2010, compared with \$142 billion at June 30, 2009 and \$157 billion at March 31, 2010. The decrease compared with March 31, 2010 reflects market depreciation.

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

Net interest revenue increased \$7 million year-over-year and \$1 million sequentially. The year-over-year increase was primarily due to high quality loan

24 BNY Mellon

**Table of Contents**

growth, higher loan spreads, and the higher yield related to the restructured investment securities portfolio. The sequential increase reflects higher deposit levels and higher deposit margins. Average loans increased 12% year-over-year and 1% (unannualized) sequentially. Average deposit levels increased 21% year-over-year and 9% (unannualized) sequentially.

Noninterest expense (excluding amortization of intangible assets) increased \$9 million compared with both the second quarter of 2009 and first quarter of 2010. The year-over-year increase primarily reflects higher legal and FDIC expenses, the impact of the annual merit increase and production-related incentives, partially offset by workforce reductions and expense control. The sequential increase reflects the timing of business development expenses and the annual merit increase.

*Year-to-date 2010 compared with year-to-date 2009*

Income before taxes totaled \$105 million in the first six months of 2010 compared with \$93 million in the first six months of 2009. Excluding intangible amortization, income before taxes increased \$8 million. Fee and other revenue increased \$12 million reflecting organic growth and the impact of higher equity markets. The \$12 million increase in net interest revenue was primarily due to high quality loan growth and higher loan spreads, and the higher yield related to the restructured investment securities portfolio, partially offset by lower deposit margins. Noninterest expense (excluding intangible amortization) increased \$16 million primarily due to higher production-related incentive compensation for employees and FDIC expenses, partially offset by workforce reductions and expense control.

**Institutional Services Sector**

At June 30, 2010, our assets under custody and administration totaled \$21.8 trillion, a decrease of 2% from \$22.4 trillion at March 31, 2010 and a 6% increase from \$20.7 trillion at June 30, 2009. The sequential decrease primarily reflects lower market values. The year-over-year increase reflects higher market values and net new business. Equity securities constituted 28% and fixed-income securities constituted 72% of the assets under custody and administration at June 30, 2010, compared with 30% equity securities and 70% fixed income securities at March 31, 2010 and 27% equity securities and 73% fixed income securities at June 30, 2009. Assets under custody and administration at June 30, 2010 consisted of assets related to custody, mutual funds, and corporate trust businesses of \$17.3 trillion, broker-dealer service assets of \$3.0 trillion, and all other assets of \$1.5 trillion.

The market value of securities on loan at June 30, 2010 decreased to \$248 billion compared with \$253 billion at March 31, 2010. The market value of securities on loan was \$290 billion at June 30, 2009. The year-over-year decline primarily reflects a high level of U.S. Treasury securities issuances.

On July 1, 2010, we completed the acquisition of Global Investment Servicing, Inc. and on August 2, 2010, we completed the acquisition of BHF Asset Servicing GmbH. See the Second quarter 2010 and subsequent events section for additional information.

**Assets under custody and administration trend**

	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010
Market value of assets under custody and administration (in trillions) (a)	\$ 20.7	\$ 22.1	\$ 22.3	\$ 22.4	\$ 21.8
Market value of securities on loan (in billions) (b)	\$ 290	\$ 299	\$ 247	\$ 253	\$ 248

(a) Includes the assets under custody or administration of CIBC Mellon Global Securities Services Company, a joint venture with Canadian Imperial Bank of Commerce, of \$810 billion at June 30, 2009, \$943 billion at Sept. 30, 2009, \$905 billion at Dec. 31, 2009, \$964 billion at March 31, 2010 and \$903 billion at June 30, 2010.

(b) Represents the total amount of securities on loan, both cash and non-cash, managed by the Asset Servicing segment.

**Table of Contents***Asset Servicing segment*

<i>(dollar amounts in millions, unless otherwise noted)</i>	2Q09	3Q09	4Q09	1Q10	2Q10	2Q10 vs.		Year-to-date		YTD10 vs. YTD09
						2Q09	1Q10	2010	2009	
Revenue:										
Securities servicing fees - asset servicing	\$ 557	\$ 573	\$ 581	\$ 569	\$ 586	5%	3%	\$ 1,155	\$ 1,061	9%
Securities lending revenue	85	32	25	24	30	(65)	25	54	164	(67)
Foreign exchange and other trading activities	216	190	177	170	207	(4)	22	377	426	(12)
Other	46	50	33	35	83	80	137	118	94	26
Total fee and other revenue	904	845	816	798	906	-	14	1,704	1,745	(2)
Net interest revenue	211	229	205	210	216	2	3	426	460	(7)
Total revenue	1,115	1,074	1,021	1,008	1,122	1	11	2,130	2,205	(3)
Noninterest expense (ex. Intangible amortization and support agreement charges)	721	748	788	740	765	6	3	1,505	1,425	6
Income before taxes (ex. intangible amortization and support agreement charges)	394	326	233	268	357	(9)	33	625	780	(20)
Support agreement charges	(15)	(19)	(5)	(23)	16	N/M	N/M	(7)	(9)	N/M
Amortization of intangible assets	9	6	6	6	5	(44)	(17)	11	16	(31)
Income before taxes	\$ 400	\$ 339	\$ 232	\$ 285	\$ 336	(16)%	18%	\$ 621	\$ 773	(20)%
Memo: Income before taxes (ex. intangible amortization)	\$ 409	\$ 345	\$ 238	\$ 291	\$ 341	(17)%	17%	\$ 632	\$ 789	(20)%
Pre-tax operating margin	36%	32%	23%	28%	30%			29%	35%	
Pre-tax operating margin (ex. intangible amortization)	37%	32%	23%	29%	30%			30%	36%	
Market value of securities on loan at period end <i>(in billions)</i>	\$ 290	\$ 299	\$ 247	\$ 253	\$ 248	(14)%	(2)%	\$ 248	\$ 290	(14)%
Average assets	\$ 58,339	\$ 59,914	\$ 59,980	\$ 59,704	\$ 62,940	8%	5%	\$ 61,331	\$ 61,752	(1)%
Average deposits	\$ 50,583	\$ 52,271	\$ 51,755	\$ 52,183	\$ 55,343	9%	6%	\$ 53,772	\$ 53,816	-%

*N/M - Not meaningful.*

*Business description*

The Asset Servicing segment includes global custody, global fund services, securities lending, global liquidity services, outsourcing, alternative investment services, government securities clearance, collateral management and credit-related services and other linked revenues, principally foreign exchange. Clients include corporate and public retirement funds, foundations and endowments and global financial institutions including banks, broker-dealers, investment managers, insurance companies and mutual funds.

The results of the Asset Servicing segment are driven by a number of factors which include the level of transaction activity, the extent of services provided, including custody, accounting, fund administration, daily valuations, performance measurement and risk analytics, securities lending, investment manager backoffice outsourcing and the market value of assets under administration and custody. Market interest rates impact both securities lending revenue and the earnings on client deposit balances. Broker-dealer fees depend on the level of

activity in the fixed income and equity markets and the financing needs of customers, which are typically higher when the equity and fixed income markets are active. Also, tri-party repo arrangements continue to remain a key revenue driver in broker-dealer services. Foreign exchange trading revenues are influenced by the volume of client transactions and the spread realized on these transactions, market volatility in major currencies, 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. Segment expenses are principally driven by staffing levels and technology investments.

We are one of the leading global securities servicing providers with a total of \$21.8 trillion of assets under custody and administration at June 30, 2010. We continue to maintain our number one ranking in two major global custody surveys. We are one of the largest providers of fund services in the world, servicing \$4.9 trillion in assets. We also service 48% of the funds in the U.S. exchange-traded funds marketplace. We are the largest custodian for U.S.



## Table of Contents

corporate and public pension plans. BNY Mellon Asset Servicing services 44% of the top 50 endowments.

We are a leading custodian in the U.K. and service 30% of U.K. pensions. European asset servicing continues to grow across all products, reflecting significant cross-border investment and capital flow. In our alternative investment services business, we are a top 10 service provider to single manager hedge funds, funds of hedge funds and private equity. In securities lending, we are one of the largest lenders of U.S. Treasury securities and depository receipts and service a lending pool of \$2.4 trillion in 31 markets around the world. We are one of the largest global providers of performance and risk analytics with \$8.9 trillion in assets under measurement.

Our broker-dealer service business is a leader in global clearance, clearing equity and fixed income transactions in more than 100 markets. We are a leading clearing agent for U.S. government securities, handling a majority of transactions cleared through the Federal Reserve Bank of New York and clearing for 13 of the 18 primary dealers. We are a leading collateral management agent with \$1.5 trillion in tri-party balances worldwide at June 30, 2010.

### *Review of financial results*

Income before taxes was \$336 million in the second quarter of 2010 compared with \$400 million in the second quarter of 2009, and \$285 million in the first quarter of 2010. Income before taxes, excluding intangible amortization and support agreement charges, was \$357 million in the second quarter of 2010 compared with \$394 million in the second quarter of 2009 and \$268 million in the first quarter of 2010. The Asset Servicing segment generated 800 basis points of positive operating leverage compared with the first quarter of 2010, excluding support agreement charges and intangible amortization.

Revenue generated in the Asset Servicing segment includes 40% from non-U.S. sources in the second quarter of 2010, 35% in the second quarter of 2009 and 43% in the first quarter of 2010.

Securities servicing fees, excluding securities lending revenue, increased \$29 million, or 5%, compared with the second quarter of 2009 and \$17 million, or 3% (unannualized) sequentially. The

year-over-year increase reflects higher market values and new business. The sequential increase reflects new business and higher transaction volumes.

Securities lending revenue decreased \$55 million compared to the second quarter of 2009 and increased \$6 million sequentially. The year-over-year decrease reflects narrower spreads and lower loan balances while the sequential increase reflects seasonality. Spreads decreased 49% compared with the second quarter of 2009 and increased 60% sequentially. Volumes decreased 9% compared with the second quarter of 2009 and increased 4% (unannualized) sequentially.

Foreign exchange and other trading decreased 4% compared with the second quarter of 2009 and increased 22% (unannualized) sequentially. Both fluctuations primarily resulted from changes in volatility.

Other revenue increased year-over-year and sequentially as a result of higher foreign exchange translation gains.

Net interest revenue increased 2% year-over-year and 3% (unannualized) sequentially. The increase compared with the second quarter of 2009 resulted from the higher yield related to the restructured investment securities portfolio, primarily offset by lower spreads on deposits. The increase sequentially reflects higher deposit levels and spreads.

Noninterest expense (excluding amortization of intangible assets and support agreement charges) increased \$44 million compared with the second quarter of 2009 and \$25 million sequentially. The year-over-year increase reflects higher subcustodian fees resulting from higher asset values and transaction volumes, as well as higher professional, legal and other purchased services and higher business development expense. The sequential increase was primarily driven by higher subcustodian fees and higher business development activity.

### *Year-to-date 2010 compared with year-to-date 2009*

Income before taxes totaled \$621 million in the first six months of 2010 compared with \$773 million in the first six months of 2009. Excluding intangible amortization and support agreement charges, income before taxes decreased \$155 million. Fee and other revenue decreased \$41 million primarily due to lower securities lending revenue, reflecting narrower spreads and lower loan balances. Net interest revenue decreased \$34 million primarily driven by





**Table of Contents**

lower spreads on deposits. Noninterest expense (excluding intangible amortization and support agreement charges) increased \$80 million primarily due to higher sub-custodial fees resulting from

higher asset values and transaction volume, as well as higher professional, legal and other purchased services and higher business development activity.

*Issuer Services segment*

<i>(dollars in millions)</i>	2Q09	3Q09	4Q09	1Q10	2Q10	2Q10 vs.		Year-to-date		YTD10 vs. YTD09
						2Q09	1Q10	2010	2009	
<b>Revenue:</b>										
Securities servicing fees issuer services	\$ 373	\$ 359	\$ 367	\$ 333	\$ 353	(5)%	6%	\$ 686	\$ 736	(7)%
Other	40	30	43	25	27	(33)	8	52	82	(37)
Total fee and other revenue	413	389	410	358	380	(8)	6	738	818	(10)
Net interest revenue	185	180	203	252	216	17	(14)	468	385	22
Total revenue	598	569	613	610	596	-	(2)	1,206	1,203	-
Noninterest expense (ex. intangible amortization)	305	304	318	304	318	4	5	622	602	3
Income before taxes (ex. intangible amortization)	293	265	295	306	278	(5)	(9)	584	601	(3)
Amortization of intangible assets	20	20	20	20	21	5	5	41	41	-
Income before taxes	\$ 273	\$ 245	\$ 275	\$ 286	\$ 257	(6)%	(10)%	\$ 543	\$ 560	(3)%
Pre-tax operating margin	46%	43%	45%	47%	43%			45%	47%	
Pre-tax operating margin (ex. intangible amortization)	49%	47%	48%	50%	47%			48%	50%	
Average assets	\$ 52,161	\$ 47,975	\$ 52,028	\$ 52,838	\$ 48,938	(6)%	(7)%	\$ 50,877	\$ 51,516	(1)%
Average deposits	\$ 47,293	\$ 43,183	\$ 47,320	\$ 48,470	\$ 44,560	(6)%	(8)%	\$ 46,504	\$ 46,631	-%
Number of depositary receipt programs	1,320	1,322	1,330	1,336	1,345	2%	1%	1,345	1,320	2%

*Business description*

The Issuer Services segment provides a diverse array of products and services to global fixed income and equity issuers.

BNY Mellon is the number one provider of corporate trust services for all major debt categories across conventional, structured finance and specialty debt. We service \$11.6 trillion in outstanding debt from 61 locations in 20 countries. We serve as depositary for 1,345 sponsored American and global depositary receipt programs, acting in partnership with leading companies from 67 countries. In addition to top-ranked stock transfer agency services, BNY Mellon Shareowner Services offers a comprehensive suite of equity solutions, including record-keeping and corporate actions processing, demutualizations, direct investment, dividend reinvestment, proxy solicitation and employee stock plan administration.

Fee revenue in the Issuer Services segment depends on:

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

the volume of issuance of fixed income securities;  
depository receipts issuance and cancellation volume;  
corporate actions impacting depository receipts; and  
stock transfer, corporate actions and equity trading volumes.

Expenses in the Issuer Services segment are driven by staff, equipment and space required to support the services provided by the segment.

### *Review of financial results*

Income before taxes was \$257 million in the second quarter of 2010, compared with \$273 million in the second quarter of 2009 and \$286 million in the first quarter of 2010. Income before taxes, excluding intangible amortization, was \$278 million in the second quarter of 2010, compared with \$293 million in the second quarter of 2009 and \$306 million in the first quarter of 2010.

Total fee and other revenue decreased 8% year-over-year and increased 6% sequentially.

Corporate Trust Fee and other revenue decreased year-over-year and sequentially. The

**Table of Contents**

year-over-year decline reflects weakness in the global debt markets and lower money market related fees. The sequential decline reflects continued low debt issuances in the global markets.

**Depository Receipts** Fee and other revenue increased year-over-year and sequentially primarily due to higher transaction and servicing fees. The sequential increase was also impacted by seasonality. Depository Receipt issuances have exceeded cancellations for five consecutive quarters.

**Shareowner Services** Fee and other revenue decreased year-over-year and increased sequentially. The year-over-year decrease reflects lower corporate action fees and lower employee stock option plan fees. The sequential increase reflects higher seasonal shareholder services revenue, partially offset by lower corporate action fees.

Net interest revenue increased \$31 million, or 17%, compared with the second quarter of 2009, and decreased \$36 million, or 14% (unannualized), compared with the first quarter of 2010. The year-over-year increase was driven by the higher yield related to the restructured investment securities

portfolio and higher deposit spreads. The sequential decline reflects lower client deposits.

Noninterest expense (excluding intangible amortization) increased \$13 million, or 4%, compared with the second quarter of 2009 and \$14 million, or 5% (unannualized) sequentially. The year-over-year increase reflects higher legal and FDIC expenses. The sequential increase resulted from higher legal expense and timing of business development activity. Staff expense decreased year-over-year and was unchanged sequentially.

*Year-to-date 2010 compared with year-to-date 2009*

Income before taxes totaled \$543 million in the first six months of 2010 compared with \$560 million in the first six months of 2009. Excluding intangible amortization, income before taxes decreased \$17 million. Fee and other revenue decreased \$80 million primarily reflecting weakness in the global debt markets and lower money market related fees. Net interest revenue increased \$83 million driven by the higher yield related to the restructured investment securities portfolio. Noninterest expense (excluding intangible amortization) increased \$20 million primarily driven by higher legal and FDIC expenses.

*Clearing Services segment*

<i>(dollar amounts in millions, unless otherwise noted)</i>	2Q09	3Q09	4Q09	1Q10	2Q10	2Q10 vs.		Year-to-date		YTD10 vs. YTD09
						2Q09	1Q10	2010	2009	
<b>Revenue:</b>										
Securities servicing fees clearing services	\$ 248	\$ 232	\$ 219	\$ 227	\$ 240	(3)%	6%	\$ 467	\$ 497	(6)%
Other	66	59	45	44	36	(45)	(18)	80	138	(42)
Total fee and other revenue	314	291	264	271	276	(12)	2	547	635	(14)
Net interest revenue	87	81	90	95	93	7	(2)	188	169	11
Total revenue	401	372	354	366	369	(8)	1	735	804	(9)
Noninterest expense (ex. intangible amortization)	256	245	241	255	270	5	6	525	508	3
Income before taxes (ex. intangible amortization)	145	127	113	111	99	(32)	(11)	210	296	(29)
Amortization of intangible assets	7	6	7	6	7	N/M	N/M	13	14	N/M
Income before taxes	\$ 138	\$ 121	\$ 106	\$ 105	\$ 92	(33)%	(12)%	\$ 197	\$ 282	(30)%
<b>Pre-tax operating margin</b>	34%	33%	30%	29%	25%			27%	35%	
Pre-tax operating margin (ex. intangible amortization)	36%	34%	32%	30%	27%			29%	37%	
<b>Average active accounts (in thousands)</b>	4,999	4,771	4,758	4,811	4,896	(2)%	2%	4,854	5,224	(7)%
Average assets	\$ 17,014	\$ 17,827	\$ 20,365	\$ 20,338	\$ 21,550	27%	6%	\$ 20,947	\$ 17,803	18%
Average margin loans	\$ 4,121	\$ 4,322	\$ 4,651	\$ 5,229	\$ 5,775	40%	10%	\$ 5,504	\$ 4,164	32%
Average payables to customers and broker-dealers	\$ 4,901	\$ 5,845	\$ 6,476	\$ 6,495	\$ 6,593	35%	2%	\$ 6,544	\$ 4,352	50%

N/M Not meaningful.



## **Table of Contents**

### *Business description*

Our Clearing Services segment consists of Pershing's global clearing and execution business in over 60 markets. Located in 20 offices worldwide, Pershing provides operational support, trading services, flexible technology, an expansive array of investment solutions including managed accounts, mutual funds and cash management, practice management support and service excellence. Pershing takes a consultative approach, working behind the scenes for its more than 1,150 customers who represent approximately five million individual and institutional investors. Pershing serves a broad array of customers including financial intermediaries, broker-dealers, independent registered investment advisors and hedge fund managers.

Pershing is the enterprise name for Pershing, Pershing Advisor Solutions, Pershing Prime Services, iNautix USA, the Lockwood companies, and its international affiliates in Canada, Ireland, the U.K. and Singapore.

Revenue in this segment includes fees and commissions from broker-dealer services, registered investment advisor services, prime brokerage services and electronic trading services, which are primarily driven by trading volumes, particularly those related to retail customers and overall market levels.

A substantial amount of revenue in this segment is generated from non-transactional activities, such as asset gathering; providing services to mutual funds, money market funds and retirement programs; and administration and other services.

Segment expenses are driven by staff, equipment and space required to support the services provided by the segment and the cost of execution and clearance of trades.

### *Review of financial results*

Income before taxes was \$92 million in the second quarter of 2010, \$138 million in the second quarter of 2009 and \$105 million in the first quarter of 2010.

Total fee and other revenue decreased \$38 million, or 12%, compared with the second quarter of 2009 and increased \$5 million, or 2% (unannualized) compared with the first quarter of 2010. The year-over-year decrease was primarily due to lower money market related distribution fees and lower trading volumes, partially offset by higher mutual fund fee revenue driven by improved asset values. The sequential increase was primarily due to higher transaction fee volumes and higher money market fund fees, partially offset by lower trading revenue.

Net interest revenue increased \$6 million compared with the second quarter of 2009 and decreased \$2 million compared with the first quarter of 2010. Both variances were impacted by the fluctuation in accretion related to the restructured investment securities portfolio. The sequential comparison was also impacted by a higher level of interest-earning assets partially offset by lower spreads.

Noninterest expense (excluding intangible amortization) increased \$14 million, or 5%, compared to the second quarter of 2009 and \$15 million, or 6% (unannualized) compared with the first quarter of 2010. Both increases primarily reflect higher expenses in support of future client conversions and higher professional, legal and other purchased services expenses. The sequential increase also reflects higher clearing expense driven by increased volumes.

### *Year-to-date 2010 compared with year-to-date 2009*

Income before taxes totaled \$197 million in the first six months of 2010 compared with \$282 million in the first six months of 2009. Fee and other revenue decreased \$88 million primarily reflecting lower money market related distribution fees and lower trading volumes. Net interest revenue increased \$19 million compared with the second quarter of 2009, primarily reflecting the higher yield related to the restructured investment securities portfolio. Noninterest expense (excluding intangible amortization) increased \$17 million primarily reflecting higher expenses in support of future client conversions and higher professional legal and other purchased services expense.

**Table of Contents***Treasury Services segment*

<i>(dollar amounts in millions)</i>	2Q09	3Q09	4Q09	1Q10	2Q10	2Q10 vs.		Year-to-date		YTD10 vs. YTD09
						2Q09	1Q10	2010	2009	
<b>Revenue:</b>										
Treasury services	\$ 128	\$ 124	\$ 130	\$ 127	\$ 121	(5)%	(5)%	\$ 248	\$ 249	-%
Other	52	82	92	98	75	44	(23)	173	158	9
Total fee and other revenue	180	206	222	225	196	9	(13)	421	407	3
Net interest revenue	157	149	148	176	161	3	(9)	337	316	7
Total revenue	337	355	370	401	357	6	(11)	758	723	5
Noninterest expense (ex. intangible amortization)	191	180	187	182	188	(2)	3	370	380	(3)
Income before taxes (ex. intangible amortization)	146	175	183	219	169	16	(23)	388	343	13
Amortization of intangible assets	7	6	6	6	5	(29)	(17)	11	13	(15)
Income before taxes	\$ 139	\$ 169	\$ 177	\$ 213	\$ 164	18%	(23)%	\$ 377	\$ 330	14%
Pre-tax operating margin	41%	48%	48%	53%	46%			50%	46%	
Pre-tax operating margin (ex. intangible amortization)	43%	49%	50%	55%	47%			51%	47%	
Average loans	\$ 13,228	\$ 11,648	\$ 10,982	\$ 10,436	\$ 10,290	(22)%	(1)%	\$ 10,363	\$ 13,573	(24)%
Average assets	\$ 24,764	\$ 24,223	\$ 26,275	\$ 26,716	\$ 26,485	7%	(1)%	\$ 26,600	\$ 26,704	-%
Average deposits	\$ 20,321	\$ 19,989	\$ 22,138	\$ 22,257	\$ 22,209	9%	-%	\$ 22,233	\$ 22,582	(2)%

*Business description*

The Treasury Services segment includes cash management solutions, trade finance services, international payment services and global markets, capital markets and liquidity services.

Treasury services revenue is directly influenced by the volume of transactions and payments processed, loan levels, types of service provided, net interest revenue earned from deposit balances generated by activity across our business operations and the value of the credit derivatives portfolio. Treasury services revenue is indirectly influenced by other factors including market volatility in major currencies and the level and nature of underlying cross-border investments, as well as other transactions undertaken by corporate and institutional clients.

Segment expenses are driven by staff, equipment and space required to support the services provided, as well as operating services in support of volume increases.

Treasury Services offers leading-edge technology, innovative products, and industry expertise to help its clients optimize cash flow, manage liquidity and make payments around the world in more than 100 different countries. We maintain a global network of branches, representative offices and correspondent banks to provide comprehensive payment services including funds transfer, cash management, foreign exchange, trade services and

liquidity management. We are the fourth largest Fedwire and CHIPS payment processor, processing about 160 thousand or an average of about \$1.5 trillion, global payments daily.

Our corporate lending strategy is to focus on those clients and industries that are major users of securities servicing and treasury services. Revenue from our lending activities is primarily driven by loan levels and spreads over funding costs.

*Review of financial results*

Income before taxes was \$164 million in the second quarter of 2010 compared with \$139 million in the second quarter of 2009, and \$213 million in the first quarter of 2010.

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

Total fee and other revenue increased \$16 million compared with the second quarter of 2009 and decreased \$29 million compared with the first quarter of 2010. The year-over-year increase resulted from an improvement in the mark-to-market adjustments on credit default swaps, partially offset by lower trading revenue, lower financing-related fees and lower global payment fees. The sequential decrease was due primarily to lower trading revenue, global payment fees and financing-related fees.

Net interest revenue increased \$4 million compared to the second quarter of 2009 and decreased \$15 million sequentially. The year-over-year increase primarily resulted from the higher yield related to

**Table of Contents**

the restructured investment securities portfolio, partially offset by lower average loan balances reflecting our credit strategy to reduce targeted risk exposure. The sequential decrease reflects lower spreads.

Noninterest expense (excluding intangible amortization) decreased \$3 million compared with the second quarter of 2009 and increased \$6 million sequentially. The year-over-year decrease reflects overall expense control and lower FDIC expense. The sequential increase primarily reflects seasonally lower expenses in the first quarter of 2010.

*Year-to-date 2010 compared with year-to-date 2009*

Income before taxes totaled \$377 million in the first six months of 2010 compared with \$330 million in the first six months of 2009. Fee and other revenue increased \$14 million primarily reflecting an improvement in the mark-to-market adjustments on credit default swaps, partially offset by lower financing-related fees. Net interest revenue increased \$21 million primarily due to the higher yield related to the restructured investment securities portfolio partially offset by lower average loan balances reflecting our credit strategy to reduce targeted risk exposure. Noninterest expense (excluding intangible amortization) decreased \$10 million primarily reflecting ongoing expense management.

**Other Segment**

<i>(dollars in millions)</i>	2Q09	3Q09	4Q09	1Q10	2Q10	Year-to-date	
						2010	2009
Revenue:							
Fee and other revenue	\$ (223)	\$ (4,685)	\$ 52	\$ 143	\$ 61	\$ 204	\$ (501)
Net interest revenue (expense)	4	21	29	(23)	(21)	(44)	24
Total revenue	(219)	(4,664)	81	120	40	160	(477)
Provision for credit losses	61	147	64	35	20	55	120
Noninterest expense (ex. special litigation reserves, FDIC special assessment, intangible amortization, M&I expenses and restructuring charges)	136	125	152	119	66	185	256
Income (loss) before taxes (ex. special litigation reserves, FDIC special assessment, intangible amortization, M&I expenses and restructuring charges)	(416)	(4,936)	(135)	(34)	(46)	(80)	(853)
Special litigation reserves	N/A	N/A	N/A	164	N/A	164	N/A
FDIC special assessment	61	-	-	-	-	-	61
Amortization of intangible assets	(1)	1	1	-	1	1	(1)
M&I expenses	59	54	52	26	14	40	127
Restructuring charges	6	(5)	139	7	(15)	(8)	16
Income (loss) before taxes	\$ (541)	\$ (4,986)	\$ (327)	\$ (231)	\$ (46)	\$ (277)	\$ (1,056)
Average assets	\$ 32,413	\$ 32,224	\$ 31,459	\$ 30,012	\$ 33,374	\$ 31,703	\$ 32,280
Average deposits	6,923	6,507	5,378	4,144	4,457	4,293	8,470
N/A	<i>Not applicable.</i>						

*Business description*

On Jan. 15, 2010, we completed the sale of Mellon United National Bank ( MUNB ), our national bank located in Florida. We applied discontinued operations accounting to this business. All prior period results have been restated.

The Other segment primarily includes:



the results of the leasing portfolio;  
corporate treasury activities, including our investment securities portfolio;  
33.2% equity interest in BNY ConvergEx; and  
business exits and corporate overhead.

Revenue primarily reflects:

net interest revenue from the leasing portfolio;  
interest income remaining after transfer pricing allocations;  
fee and other revenue from corporate and bank-owned life insurance; and  
gains (losses) associated with the valuation of investment securities and other assets.

Noninterest expense includes:

M&I expenses;  
restructuring charges;

---

**Table of Contents**

direct expenses supporting leasing, investing and funding activities; and certain corporate overhead not directly attributable to the operations of other segments.

*Review of financial results*

Income before taxes was a loss of \$46 million for the second quarter of 2010, compared with losses of \$541 million in the second quarter of 2009 and \$231 million in the first quarter of 2010.

The Other segment includes the following activity:

In the second quarter of 2010:

a CVA and debit valuation adjustment ( DVA ) of \$43 million;  
a provision for credit losses of \$20 million; and  
lease residual gains of \$15 million.

In the first quarter of 2010:

a \$164 million charge related to special litigation reserves;  
a provision for credit losses of \$35 million; and  
lease residual gains of \$52 million.

In the second quarter of 2009:

a \$208 million (pre-tax) securities loss associated with other-than-temporary impairment ( OTTI ) recorded in total fee and other revenue;  
a \$61 million (pre-tax) FDIC special assessment; and  
lease residual losses of \$ 10 million.

*Year-to-date 2010 compared with year-to-date 2009*

Income before taxes in the Other segment was a loss of \$277 million in the first six months of 2010 compared with a loss of \$1.1 billion in the first six months of 2009. Total revenue increased \$637 million primarily reflecting the OTTI charges recorded in the first half of 2009.

Non-interest expenses (excluding special litigation reserves, FDIC special assessment, intangible amortization, M&I expenses and restructuring charges) decreased \$71 million reflecting lower expense for litigation and government assessments.

**Critical accounting estimates**

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements contained in BNY Mellon's 2009 Annual Report on Form 10-K. Our more critical accounting estimates are those related to goodwill and other intangibles, the allowance for loan losses and allowance for lending related commitments, fair value of financial instruments and derivatives, OTTI and pension accounting as referenced below.

**Critical policy**

**Pension accounting**

**Goodwill and other intangibles**

**Allowance for loan losses and allowance for lending-related commitments**

**Fair value of financial instruments**

**OTTI**

**Reference**

BNY Mellon's 2009 Annual Report, pages 43 through 45.

BNY Mellon's 2009 Annual Report, pages 42 and 43.

BNY Mellon's 2009 Annual Report, page 39. See page 40 of this Form 10-Q for the impact of estimates on the allowance for credit losses.

BNY Mellon's 2009 Annual Report, pages 39 through 41.

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

BNY Mellon's 2009 Annual Report, pages 41 and 42. See page 35 of this Form 10-Q for the impact of market assumptions on portions of our securities portfolio.

### Consolidated balance sheet review

At June 30, 2010, total assets were \$235.7 billion compared with \$212.2 billion at Dec. 31, 2009. Deposits totaled \$143.7 billion at June 30, 2010 and \$135.1 billion at Dec. 31, 2009. The increase in consolidated total assets resulted from the addition of \$13.4 billion for the adoption of SFAS No. 167, Amendments to FASB interpretation No. 46 (R) (Topic 810, *Consolidation*) as well as a higher level of noninterest-bearing deposits. Total assets averaged \$228.8 billion in the second quarter of 2010, compared with \$225.4 billion in the first quarter of 2010 and \$208.5 billion in the second quarter of 2009. Total deposits averaged \$134.6 billion in the second quarter of 2010, \$134.4 billion in the first quarter of 2010 and \$131.7 billion in the second quarter of 2009.

At June 30, 2010, we had approximately \$57.9 billion of liquid funds and \$25.1 billion of cash (including approximately \$21.6 billion on deposit with the Federal Reserve and other central banks) for a total of approximately \$83.0 billion of available funds. This compares with available funds of \$70.9 billion at Dec. 31, 2009. Our interest-bearing

BNY Mellon 33

**Table of Contents**

deposits with banks are all placed with large highly-rated global financial institutions. The average life of the interest-bearing deposits is approximately 45 days.

Investment securities were \$53.6 billion or 23% of total assets at June 30, 2010, compared with \$56.0 or 26% of total assets at Dec. 31, 2009.

Loans were \$37.1 billion or 16% of total assets at June 30, 2010, compared with \$36.7 billion or 17% of total assets at Dec. 31, 2009. The increase in loan levels was primarily due to higher margin loans.

Total shareholders' equity applicable to BNY Mellon was \$30.4 billion at June 30, 2010 and \$29.0 billion at Dec. 31, 2009. The increase in total shareholders' equity primarily reflects retained earnings in the first six months of 2010 and improved credit spreads in our investment securities portfolio.

*Investment securities*

In the discussion of our investment securities portfolio, we have included certain credit ratings information because the information indicates the degree of credit risk to which we are exposed, and significant changes in ratings classifications for our investment portfolio could result in increased risk for us.

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

**Investment securities portfolio**

<i>(dollar amounts in millions)</i>	March 31, 2Q10		June 30, 2010		Fair value as a % of amortized cost (a)	Unrealized gain/(loss)	AAA/AA-	A+/A-	BBB+/BBB-	BB+ and lower	Not rated
	Fair value	change in unrealized gain/(loss)	Amortized cost	Fair value							
<b>Watch list: (b)</b>											
European floating rate notes											
(c)	\$ 5,032	\$ 18	\$ 4,962	\$ 4,527	91%	\$ (435)	94%	6%	-%	-%	-%
Commercial MBS	2,360	23	2,338	2,357	101	19	92	5	2	1	-
Prime RMBS	1,613	69	1,685	1,568	92	(117)	51	14	9	26	-
Alt-A RMBS	756	34	781	729	72	(52)	28	8	1	63	-
Subprime RMBS	486	31	757	501	66	(256)	70	12	8	10	-
Credit cards	588	3	541	543	98	2	2	97	1	-	-
Other	376	(8)	352	361	52	9	3	1	22	42	32
Total Watch list (b)	11,211	170	11,416	10,586	88	(830)	74	12	3	10	1
Agency RMBS											
	18,349	238	18,480	19,039	103	559	100	-	-	-	-
Sovereign debt/ sovereign guaranteed											
	7,710	(6)	7,047	7,126	101	79	100	-	-	-	-
U.S. Treasury securities	7,083	48	5,853	5,948	102	95	100	-	-	-	-
Grantor Trust (d):											
Alt-A RMBS	2,605	38	2,355	2,536	62	181	3	4	4	89	-
Prime RMBS	2,024	42	1,831	1,969	73	138	2	3	3	92	-
Subprime RMBS	146	2	127	148	65	21	13	5	-	82	-
FDIC-insured debt	2,586	6	2,485	2,546	102	61	100	-	-	-	-
U.S. Government agency debt	1,157	(6)	1,133	1,146	101	13	100	-	-	-	-
Other	2,650	7	2,500	2,475	99	(25)	75	10	6	-	9
Total investment Securities	\$ 55,521	\$ 539	\$ 53,227	\$ 53,519(e)	95%	\$ 292(e)	85%	3%	1%	10%	1%

(a) Amortized cost before impairments.

(b) The Watch list includes those securities we view as having a higher risk of impairment charges.

(c) Includes RMBS, commercial MBS, and other securities.

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

- (d) *The Grantor Trust RMBS were marked to market in the fourth quarter of 2009. We believe these RMBS would receive higher credit ratings if these ratings incorporated, as additional credit enhancement, the difference between the written-down amortized cost and the current face amount of each of these securities.*
- (e) *Includes a \$13 million unrealized loss on derivatives hedging available for sale securities.*

The fair value of our investment securities portfolio was \$53.5 billion at June 30, 2010, compared with \$55.5 billion at March 31, 2010 and \$55.9 billion at Dec. 31, 2009. The decrease in the securities portfolio at June 30, 2010 compared with March 31,

2010 primarily reflects maturities, sales, paydowns and foreign exchange partially offset by purchases.

At June 30, 2010, the total investment securities portfolio had an unrealized pre-tax gain of \$292

**Table of Contents**

million compared with an unrealized pre-tax loss of \$247 million at March 31, 2010. The unrealized net of tax gain on our investment securities available for sale portfolio included in other comprehensive income was \$162 million at June 30, 2010. The unrealized net of tax loss on our investment securities available for sale portfolio at March 31, 2010 was \$180 million. The improvement in the valuation of the investment securities portfolio was due to tightening spreads and a decline in interest rates.

At June 30, 2010, 85% of the securities in our portfolio were rated AAA/AA-, unchanged from March 31, 2010.

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

At June 30, 2010, we had \$1.5 billion of accretable discount related to the restructuring of the investment securities portfolio. The discount related to these transactions had a remaining average life of approximately 4.1 years. The accretion of discount related to these securities increased net interest revenue and is recorded on a level yield basis. The discount accretion totaled \$104 million in the second quarter of 2010, \$137 million in the first quarter of 2010 and \$10 million in the second quarter of 2009.

Also, at June 30, 2010, we had \$487 million of net amortizable purchase premium relating to investment securities with a remaining average life of approximately 2.6 years. For these securities, the amortization of net premium decreased net interest revenue and is recorded on a level yield basis. We recorded net premium amortization of \$43 million in the second quarter of 2010, \$67 million in the first quarter of 2010 and \$9 million in the second quarter of 2009. For these securities, the amortization of net premium decreased net interest revenue and is recorded on a level yield basis.

Net securities gains in the second quarter of 2010 were \$13 million. The following table provides pre-tax securities gains (losses) by type.

Net securities gains (losses)	Year-to-date				
	2Q10	1Q10	2Q09	2010	2009
<i>(in millions)</i>					
Alt-A RMBS	\$ (6)	\$ (7)	\$ (114)	\$ (13)	\$ (239)
Prime RMBS	-	-	(9)	-	(12)
Home equity lines of credit	-	-	(4)	-	(22)
European floating rate notes	-	-	(66)	-	(70)
Credit cards	-	-	(26)	-	(28)
Other	19	14	(37)	33	(180)
Net securities gains (losses)	\$ 13	\$ 7	\$ (256)	\$ 20	\$ (551)

On a quarterly basis, we perform our impairment analysis using several factors including projected loss severities and default rates. In the second quarter of 2010, this analysis resulted in a \$1 million credit loss on Alt-A RMBS. If we were to increase or decrease each of our projected loss severities and default rates by 100 basis points on each of the positions in our Alt-A, subprime and prime RMBS portfolios and the securities portfolio held by the Grantor Trust, credit-related impairment charges on these securities would have increased to \$2.5 million (pre-tax) or decreased to \$0.3 million (pre-tax) in the second quarter of 2010. See Note 5 to the Notes to Consolidated Financial Statements for the projected weighted average default rates and loss severities.

The following table shows the fair value of the European floating rate notes by geographical location at June 30, 2010.

European floating rate notes at June 30, 2010 (a)	United Kingdom			Other	Total fair value
	United Kingdom	Netherlands	Other		
<i>(in millions)</i>					
RMBS	\$ 2,173	\$ 904	\$ 847	\$ 3,924	
Other	262	72	269	603	
Total	\$ 2,435	\$ 976	\$ 1,116	\$ 4,527	

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

(a) 94% of these securities are in the AAA to AA- ratings category.

Included in our investment securities portfolio are the following securities that have credit enhancement provided through a guarantee by a monoline insurer:

### Investment securities guaranteed by monoline insurers

<i>(in millions)</i>	June 30, 2010	Dec. 31, 2009
State and political subdivisions	\$ 621	\$ 610
Mortgage-backed securities	133	137
Total fair value	\$ 754(a)	\$ 747
Amortized cost less securities losses	\$ 793	\$ 761
Mark-to-market unrealized (loss) (pre-tax)	\$ (39)	\$ (14)

(a) The par value guaranteed by the monoline insurers was \$854 million.

At June 30, 2010, securities guaranteed by monoline insurers were rated 43% AAA to AA-, 21% A+ to A-, 13% BBB+ to BBB- and 23% BB+ and lower. The increase in fair value from Dec. 31, 2009 primarily reflects purchases of municipal securities partially offset by maturities, calls and paydowns of mortgage-backed securities. When purchasing securities, we review the credit quality of the underlying securities, as well as the insurer.

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

**Table of Contents***Loans*

Total exposure consolidated (in billions)	June 30, 2010			Dec. 31, 2009		
	Loans	Unfunded commitments	Total exposure	Loans	Unfunded commitments	Total exposure
Non-margin loans:						
Financial institutions	\$ 9.2	\$ 16.9	\$ 26.1	\$ 9.0	\$ 18.5	\$ 27.5
Commercial	2.4	20.7	23.1	3.0	22.5	25.5
Subtotal institutional	11.6	37.6	49.2	12.0	41.0	53.0
Wealth management loans and mortgages	6.2	1.9	8.1	6.2	1.8	8.0
Commercial real estate	2.0	1.5	3.5	2.0	1.7	3.7
Lease financing	3.3	0.1	3.4	3.5	0.1	3.6
Other residential mortgages	2.2	-	2.2	2.2	-	2.2
Overdrafts	5.9	-	5.9	6.1	-	6.1
Other	0.3	0.1	0.4	-	-	-
Subtotal non-margin loans	31.5	41.2	72.7	32.0	44.6	76.6
Margin loans	5.6	-	5.6	4.7	-	4.7
Total	\$ 37.1	\$ 41.2	\$ 78.3	\$ 36.7	\$ 44.6	\$ 81.3

At June 30, 2010, total exposures were \$78.3 billion, a decrease of 4% from \$81.3 billion at Dec. 31, 2009, primarily reflecting a decrease in institutional exposure.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios make up 63% of our total lending exposure.

Our total exposure to Portugal and Greece was \$4 million at June 30, 2010.

*Financial institutions*

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

Financial institutions portfolio exposure (dollar amounts in billions)	June 30, 2010						Dec. 31, 2009		
	Loans	Unfunded commitments	Total exposure	% Inv grade	% due <1 yr	Loans	Unfunded commitments	Total exposure	
Banks	\$ 4.1	\$ 2.5	\$ 6.6	67%	92%	\$ 3.3	\$ 2.9	\$ 6.2	
Securities industry	3.7	2.5	6.2	92	97	3.6	2.1	5.7	
Insurance	0.2	5.0	5.2	88	44	0.4	6.0	6.4	
Asset managers	0.9	2.7	3.6	95	85	1.0	2.8	3.8	
Government	0.1	2.2	2.3	97	52	0.1	2.9	3.0	
Other	0.2	2.0	2.2	92	48	0.6	1.8	2.4	
Total	\$ 9.2	\$ 16.9	\$ 26.1	86%	76%	\$ 9.0	\$ 18.5	\$ 27.5	

The financial institutions portfolio exposure was \$26.1 billion at June 30, 2010, compared to \$27.5 billion at Dec. 31, 2009. The decrease from Dec. 31, 2009 primarily reflects decreases in insurance and government exposure. Financial institution exposures are high quality with 86% meeting the investment grade equivalent criteria of our rating system at June 30, 2010. These exposures are generally short-term, with 76%



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

expiring within one year and are frequently secured by securities that we hold in custody on behalf of those financial institutions. For example, securities industry and asset managers often borrow against marketable securities held in custody.

As a conservative measure, our internal credit rating classification for international counterparties caps

the rating based upon the sovereign rating of the country where the counterparty resides regardless of the credit rating of the counterparty or the underlying collateral.

Our exposure to banks is predominately to investment grade counterparties in developed countries. Non-investment grade bank exposures are short-term in nature supporting our global trade finance and U.S. dollar clearing businesses in developing countries.

The asset manager portfolio exposures are high quality with 95% meeting our investment grade equivalent ratings criteria as of June 30, 2010. These exposures are generally short-term liquidity

**Table of Contents**

facilities with the vast majority to regulated mutual funds.

*Commercial*

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

Commercial portfolio exposure <i>(dollar amounts in billions)</i>	June 30, 2010					Dec. 31, 2009		
	Loans	Unfunded commitments	Total exposure	% Inv grade	% due <1 yr	Loans	Unfunded commitments	Total exposure
Services and other	\$ 0.8	\$ 6.8	\$ 7.6	84%	38%	\$ 1.0	\$ 7.7	\$ 8.7
Manufacturing	0.7	6.1	6.8	83	23	0.9	6.4	7.3
Energy and utilities	0.5	5.9	6.4	82	22	0.6	6.3	6.9
Media and telecom	0.4	1.9	2.3	58	28	0.5	2.1	2.6
<b>Total</b>	<b>\$ 2.4</b>	<b>\$ 20.7</b>	<b>\$ 23.1</b>	<b>80%</b>	<b>28%</b>	<b>\$ 3.0</b>	<b>\$ 22.5</b>	<b>\$ 25.5</b>

The commercial portfolio exposure decreased 9% to \$23.1 billion at June 30, 2010, from \$25.5 billion at Dec. 31, 2009, reflecting decreased exposures in all categories. Our goal is to migrate towards a predominantly investment grade portfolio.

We continue to actively monitor automotive industry exposure given ongoing weakness in the domestic automotive industry. At both June 30, 2010 and

Dec. 31, 2009, total exposures in our automotive portfolio included \$109 million of secured exposure to one of the big three U.S. automotive manufacturers. We also had \$61 million of exposure to four automotive suppliers at June 30, 2010.

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

Percent of the portfolios that are investment grade	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010
Financial institutions	90%	84%	85%	85%	86%
Commercial	80%	80%	80%	80%	80%

*Wealth Management loans and mortgages*

Wealth Management loans and mortgages are primarily composed of loans to high-net-worth individuals, which are secured by marketable securities and/or residential property. Wealth management mortgages are primarily interest-only adjustable rate mortgages with an average loan to value ratio of 61% at origination. In the wealth management portfolio, 1% of the mortgages were past due at June 30, 2010.

At June 30, 2010, the private wealth mortgage portfolio was comprised of the following geographic concentrations: New York 22%; Massachusetts 17%; California 17%; Florida 9%; and other 35%.

*Commercial real estate*

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

Our commercial real estate credit facilities are focused on experienced owners and are structured with moderate leverage based on existing cash flows. Our commercial real estate lending activities

include both construction facilities and medium-term loans. Our client base consists of experienced developers and long-term holders of real estate assets. Loans are approved on the basis of existing or projected cash flow, and supported by appraisals and knowledge of local market conditions. Development loans are structured with moderate leverage, and in most instances, involve some level of recourse to the developer. Our commercial real estate exposure totaled \$3.5 billion at June 30, 2010 and \$3.7 billion at Dec. 31, 2009.

At June 30, 2010, approximately 72% of our commercial real estate portfolio was secured. The secured portfolio is diverse by project type with approximately 53% secured by residential buildings, 30% secured by office buildings, 8% secured by retail properties and 9% by other categories. Approximately 95% of the unsecured portfolio is allocated to real estate investment trusts ( REITs ) under revolving credit agreements.

At June 30, 2010, our commercial real estate portfolio was comprised of the following

BNY Mellon 37

## **Table of Contents**

concentrations: New York metro 51%; investment grade REITs 26%; and other 23%.

### *Lease financings*

The leasing portfolio consisted of non-airline exposures of \$3.2 billion and \$226 million of airline exposures at June 30, 2010. Approximately 91% of the leasing exposure is investment grade, or investment grade equivalent.

At June 30, 2010, our \$226 million of exposure to the airline industry consisted of a \$16 million real estate lease exposure, as well as the airline-leasing portfolio which included \$74 million to major U.S. carriers, \$122 million to foreign airlines and \$14 million to U.S. regional airlines.

During the second quarter of 2010, the U.S. domestic airline industry continued to be in a weak financial condition due to high debt levels. Combined with their high cost operation models, the domestic airlines remain vulnerable. As such, we continue to maintain a sizable allowance for loan losses against these exposures and to closely monitor the portfolio.

### *Other residential mortgages*

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled \$2.2 billion at June 30, 2010. Included in this portfolio is approximately \$900 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of June 30, 2010, the remaining prime and Alt-A mortgage loans in this portfolio had a weighted-average original loan-to-value ratio of 75% and approximately 26% of these loans were at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, the tri-state area (New York, New Jersey and Connecticut) and Maryland.

To determine the projected loss on the prime and Alt-A mortgage portfolio, we calculate the total estimated

defaults of these mortgages and multiply that amount by an estimate of realizable value upon sale in the marketplace (severity).

At June 30, 2010, we had less than \$15 million in subprime mortgages included in our other residential mortgage portfolio. The subprime loans were issued to support our Community Reinvestment Act requirements.

### *Overdrafts*

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

### *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. Credit solidifies customer relationships and, through a disciplined allocation of capital, can earn acceptable rates of return as part of an overall relationship.

We have implemented a credit strategy to reduce exposures that no longer meet risk/return criteria, including an assessment of overall relationship profitability. In addition, we make use of credit derivatives and other risk mitigants as economic hedges of portions of the credit risk in our portfolio. The effect of these transactions is to transfer credit risk to creditworthy, independent third parties.

**Table of Contents****Allowance for credit losses activity**

<i>(dollar amounts in millions)</i>	<b>June 30, 2010</b>	March 31, 2010	Dec. 31, 2009	June 30, 2009
Margin loans	<b>\$ 5,602</b>	\$ 4,863	\$ 4,657	\$ 3,922
Non-margin loans	<b>31,545</b>	29,024	32,032	34,312
Total loans	<b>\$ 37,147</b>	\$ 33,887	\$ 36,689	\$ 38,234
<b>Quarterly activity</b>				
Allowance for credit losses:				
Beginning balance	<b>\$ 638</b>	\$ 628	\$ 596	\$ 559
Transferred to discontinued operations	-	-	-	(40)
Provision for credit losses	<b>20</b>	35	65	61
Net (charge-off) recoveries:				
Commercial	-	12	(14)	(25)
Commercial real estate	<b>(1)</b>	(5)	(2)	(13)
Other residential mortgages	<b>(10)</b>	(12)	(17)	(16)
Financial institutions	<b>(1)</b>	(20)	-	-
Wealth Management	<b>(1)</b>	-	-	-
Net (charge-offs)	<b>(13)</b>	(25)	(33)	(54)
Total allowance for credit losses	<b>\$ 645</b>	\$ 638	\$ 628	\$ 526
Allowance for loan losses	<b>\$ 542</b>	\$ 520	\$ 503	\$ 434
Allowance for unfunded commitments	<b>103</b>	118	125	92
Allowance for loan losses as a percent of total loans	<b>1.46%</b>	1.53%	1.37%	1.14%
Allowance for loan losses as a percent of non-margin loans	<b>1.72%</b>	1.79%	1.57%	1.27%
Total allowance for credit losses as a percent of total loans	<b>1.74%</b>	1.88%	1.71%	1.38%
Total allowance for credit losses as a percent of non-margin loans	<b>2.04%</b>	2.20%	1.96%	1.53%

Net charge-offs were \$13 million in the second quarter of 2010, \$25 million in the first quarter of 2010, \$33 million in the fourth quarter of 2009 and \$54 million in the second quarter of 2009. Net charge-offs in the second quarter of 2010 included \$10 million in residential mortgages. Net charge-offs in the first quarter of 2010 included \$15 million to a mortgage company and \$12 million in residential mortgages, partially offset by \$12 million of recoveries from the media portfolio. Net charge-offs in the fourth quarter of 2009 included \$17 million in residential mortgages and \$9 million to finance and lease companies. Net charge-offs in the second quarter of 2009 included \$16 million in residential mortgages, \$13 million in commercial real estate, \$10 million from the media portfolio and \$8 million from an automotive supply manufacturer.

The provision for credit losses was \$20 million in the second quarter of 2010 compared with \$35 million in the first quarter of 2010, \$65 million in the fourth quarter of 2009 and \$61 million in the second quarter of 2009. The decrease in the provision for credit losses primarily reflects a

decrease in higher risk-rated loans and nonperforming loans.

The total allowance for credit losses was \$645 million at June 30, 2010, \$638 million at March 31, 2010, \$628 million at Dec. 31, 2009 and \$526 million at June 30, 2009. The increase in the allowance for credit losses compared with March 31, 2010 resulted from a provision for credit losses of \$20 million, partially offset by net charge-offs of \$13 million. The ratio of the total allowance for credit losses to non-margin loans was 2.04% at June 30, 2010, 2.20% at March 31, 2010, 1.96% at Dec. 31, 2009 and 1.53% at June 30, 2009. The ratio of the allowance for loan losses to non-margin loans was 1.72% at June 30, 2010, 1.79% at March 31, 2010, 1.57% at Dec. 31, 2009 and 1.27% at June 30, 2009. The decrease in these ratios at June 30, 2010 compared with March 31, 2010 resulted from a higher level of overdrafts and broker-dealer loans.

We had \$5.6 billion of secured margin loans on our balance sheet at June 30, 2010 compared with \$4.9 billion at March 31, 2010, \$4.7 billion at Dec. 31, 2009 and \$3.9 billion at June 30, 2009. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to them. As a result, we believe that the ratio of total allowance for credit losses to non-margin loans is a more appropriate metric to measure the adequacy of the reserve.

The allowance for loan losses and the allowance for unfunded commitments consist of three elements:

- an allowance for impaired credits (nonaccrual loans over \$1 million);
- an allowance for higher risk rated credits and pass rated credits; and
- an unallocated allowance based on general economic conditions and risk factors in our individual markets.

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

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 nonperforming loans over \$1 million. 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.

BNY Mellon 39

**Table of Contents**

The second element, higher risk-rated credits and pass rated credits, is based on our expected loss model. Borrowers are assigned to pools based on their credit ratings. The expected loss for each loan in a pool incorporates the borrower's credit rating, loss given default rating and maturity. The loss given default incorporates a recovery expectation. The borrower's probability of default is derived from the associated credit rating. Borrower ratings are reviewed at least annually and are periodically mapped to third party databases, including rating agency and default and recovery databases, to ensure ongoing consistency and validity. Higher risk-rated credits are reviewed quarterly. Commercial loans over \$1 million are individually analyzed before being assigned a credit rating. We also apply this technique to our leasing and wealth management portfolios.

The third element, the unallocated allowance, is based on management's judgment regarding the following factors:

- Economic conditions including duration of the current cycle;
- Collateral values;
- Specific credits and industry conditions;
- Results of bank regulatory and internal credit exams;
- Geopolitical issues and their impact on the economy; and
- Volatility and model risk.

Based on an evaluation of these three elements, including individual credits, historical credit losses, and global economic factors, we have allocated our allowance for credit losses on a continuing operations basis as follows:

Allocation of allowance	June 30, 2010	March 31, 2010	Dec. 31, 2009	June 30, 2009
Commercial	35%	37%	41%	50%
Other residential mortgages	28	27	25	18
Financial institutions	6	9	13	17
Commercial real estate	6	6	7	2
Wealth management (a)	5	5	9	7
Foreign	1	1	1	1
Unallocated	19	15	4	5
Total	100%	100%	100%	100%

(a) Includes the allowance for wealth management mortgages.

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

The unallocated allowance reflects various factors in the current credit environment and is also available to, among other things, absorb further deterioration across all of our portfolios resulting from the current economic environment. The unallocated allowance for credit losses was 19% at June 30, 2010, up from 15% at March 31, 2010, 4% at Dec. 31, 2009 and 5% at June 30, 2009. The increase in the unallocated allowance reflects improved credit quality and a lower level of nonperforming assets compared with prior periods. At June 30, 2010, if the unallocated allowance, as a percentage of the total allowance, was 5% higher or lower, the allowance would have increased by approximately \$43 million or decreased by approximately \$38 million, respectively.

The credit rating assigned to each credit is another significant variable in determining the allowance. If each credit were rated one grade better on our internal rating system, the allowance for credit losses would have decreased by \$119 million, while if each credit were rated one grade worse on our internal rating system, the allowance for credit losses would have increased by \$162 million. Similarly, if the loss given default were one rating worse, the allowance for credit losses would have increased by \$54 million, while if the loss given default were one rating better, the allowance for credit losses would have decreased by \$77 million. For impaired credits, if the fair value of the loans was 10% higher or lower, the allowance for credit losses would have increased or decreased by \$2 million, respectively.





**Table of Contents***Nonperforming assets*

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

**Nonperforming assets**

<i>(dollar amounts in millions)</i>	<b>June 30, 2010</b>	March 31, 2010	Dec. 31, 2009
Loans:			
Other residential mortgages	\$ 229	\$ 204	\$ 190
Wealth management	62	58	58
Commercial real estate	49	50	61
Commercial	40	40	65
Financial institutions	20	102	172
Total nonperforming loans	\$ 400	\$ 454	\$ 546
Other assets owned	6	5	4
Total nonperforming assets	\$ 406 (a)	\$ 459 (a)	\$ 550
Nonperforming assets ratio	1.1%	1.4%	1.5%
Allowance for loan losses/ nonperforming loans	135.5	114.5	92.1
Allowance for loan losses/ nonperforming assets	133.5	113.3	91.5
Total allowance for credit losses/nonperforming loans	161.3	140.5	115.0
Total allowance for credit losses/nonperforming assets	158.9	139.0	114.2

(a) The adoption of ASC 810 resulted in BNY Mellon consolidating loans of consolidated asset management funds of \$12.1 billion at June 30, 2010 and \$11.3 billion at March 31, 2010. Included in these loans are \$131 million and \$150 million of nonperforming loans, respectively. These loans are not part of BNY Mellon's loan portfolio. 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.

The decrease in nonperforming assets compared with March 31, 2010 primarily resulted from an \$87 million repayment in the financial institution portfolio, partially offset by additions of \$25 million of nonperforming residential mortgages. The ratio of allowance for loan losses to nonperforming assets was 133.5% at June 30, 2010 compared with 113.3% at March 31, 2010. The increase primarily reflects the lower level of nonperforming loans.

Commercial loans are placed on nonaccrual status when principal or interest is past due 90 days or more, or when there is reasonable doubt that interest or principal will be collected. Residential mortgage loans are generally placed on nonaccrual status, when, in our judgment, collection is in doubt or the loans are 90 days or more delinquent, subject to an impairment test. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against current period interest revenue. Interest receipts on nonaccrual and impaired loans are recognized as interest revenue or are applied to principal when we

believe the ultimate collectability of principal is in doubt. Nonaccrual loans generally are restored to an accrual basis when principal and interest become current.

The allowance for credit losses is reduced by the charge-off of loans and other credit extensions. Loans, or portions thereof, and other forms of credit extensions will be charged off at the time they are deemed to be uncollectible or as otherwise required by applicable regulations or direction from regulatory agencies. BNY Mellon's practice is to record charge-offs at the end of each quarter.

**Nonperforming assets quarterly activity**

<i>(in millions)</i>	<b>June 30, 2010</b>	March 31, 2010	Dec. 31, 2009
Balance at beginning of period	\$ 459	\$ 550	\$ 560
Additions	44	17	25
Net charge-offs	(3)	(25)	(12)
Paydowns/sales	(95)	(84)	(22)
Other	1	1	(1)
Balance at end of period	\$ 406	\$ 459	\$ 550

Loans past due 90 days and still accruing interest totaled \$390 million at June 30, 2010 compared with \$397 million at March 31, 2010. Past due loans at both June 30, 2010 and March 31, 2010 include loans to an asset manager that has filed for bankruptcy (see Legal proceedings). These loans are well secured, largely by cash and high grade fixed income securities, and are in the process of collection. The remainder of past due

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

loans at June 30, 2010 primarily include \$77 million of other residential mortgages.

Interest income would have increased by \$7.1 million and \$4.1 million for the second quarters of 2010 and 2009, respectively, if loans of \$400 million on nonaccrual status at June 30, 2010 and \$372 million at June 30, 2009 had been performing for the entire period. On a year-to-date basis, interest income would have increased by \$13.9 million and \$7.9 million for the six months ended 2010 and 2009, respectively, had loans on nonaccrual status been performing for the entire period.

### *Impaired loans*

The following table sets forth information about our impaired loans greater than \$1 million. We use the discounted cash flow, collateral value, or market price methods for valuing our impaired loans. Impaired commercial loans in amounts less than \$1 million at June 30, 2010 were \$3.8 million and had an allowance for loan losses

BNY Mellon 41

**Table of Contents**

associated with them of \$0.5 million. The allowance for loan losses for impaired loans less than \$1 million was measured using our expected loss model described on page 40.

**Impaired loans**

<i>(in millions)</i>	June 30, 2010	March 31, 2010	Dec. 31, 2009	June 30, 2009
Impaired loans with an allowance	\$ 142	\$ 224	\$ 303	\$ 200
Impaired loans without an allowance (a)	22	20	42	1
Total impaired loans	\$ 164	\$ 244	\$ 345	\$ 201
Allowance for impaired loans (b)	\$ 25	\$ 28	\$ 51	\$ 41
Average balance of impaired loans during quarter	\$ 211	\$ 304	\$ 216	\$ 124

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

(b) The allowance for impaired loans is included in the allowance for loan losses.

**Deposits**

Total deposits were \$143.7 billion at June 30, 2010, compared with \$135.1 billion at Dec. 31, 2009. The increase in deposits reflects higher noninterest-bearing domestic deposits.

Noninterest-bearing deposits were \$42.2 billion at June 30, 2010, compared with \$33.5 billion at Dec. 31, 2009. Interest-bearing deposits were \$101.5 billion at June 30, 2010, compared with \$101.6 billion at Dec. 31, 2009.

**Support agreements**

In 2008, we voluntarily provided support to clients invested in money market mutual funds, cash sweep funds and similar collective funds, managed by our affiliates, as well as clients invested in funds within our securities lending business.

These support agreements are designed to enable these funds to continue to operate at a stable net asset value. In the second quarter of 2010, we recorded support agreement charges of \$9 million (pre-tax). This charge primarily reflects a decrease in the market value of Lehman securities. At June 30, 2010, the value of Lehman securities decreased to 19.50% from 23.00% at March 31, 2010.

At June 30, 2010, our potential maximum exposure to support agreements was approximately \$116 million, after deducting the reserve at June 30, 2010.

Potential maximum exposure is based on the securities subject to these agreements being valued at zero and the NAV of the related funds declining below established thresholds. This exposure includes agreements covering Lehman securities (\$90 million) as well as other client agreements (\$26 million).

**Liquidity and dividends**

BNY Mellon defines liquidity as the ability of the Company and its subsidiaries to access funding or convert assets to cash quickly and inexpensively, especially during periods of market stress. Appropriate consideration in managing the balance sheet is given to balancing the competing needs to maintain adequate levels of liquidity while maintaining profitability. Liquidity risk is the potential for loss resulting from an inability to satisfy contractual and contingent funding requirements, both on- and off-balance sheet, at an acceptable cost.

Our liquidity policy is based on several core principles. BNY Mellon seeks to maintain an adequate liquidity cushion in both normal and stressed environments and seeks to diversify funding sources by customer, market segment and maturity. Liquidity is managed on a subsidiary basis, a consolidated basis and at The Bank of New York Mellon Corporation parent company ( Parent ) level.

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

At June 30, 2010, we had approximately \$57.9 billion of liquid funds and \$25.1 billion of cash (including approximately \$21.6 billion on deposit with the Federal Reserve and other central banks) for a total of approximately \$83.0 billion of available funds. This compares with available

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

funds of \$70.9 billion at Dec. 31, 2009. Our liquid assets to total assets were 35% at June 30, 2010 compared with 33% at Dec. 31, 2009.

On an average basis for the first six months of 2010 and 2009, non-core sources of funds such as money market rate accounts, certificates of deposits greater than \$100,000, federal funds purchased and other borrowings were \$31.1 billion and \$25.4 billion, respectively. The increase year-over-year primarily

---

**Table of Contents**

reflects higher levels of money market rate accounts and federal funds purchased, partially offset by lower levels of certificates of deposits greater than \$100,000. Average foreign deposits, primarily from our European-based securities servicing business, were \$70.0 billion and \$74.4 billion for the first six months of 2010 and 2009, respectively. Domestic savings and other time deposits averaged \$6.9 billion for the first six months of 2010, compared with \$6.0 billion for the first six months of 2009.

Average payables to customers and broker-dealers were \$6.5 billion for the first six months of 2010 and \$4.4 billion for the first six months of 2009. Long-term debt averaged \$16.6 billion in the first six months of 2010 and \$16.1 billion in the first six months of 2009. Average noninterest-bearing deposits decreased to \$34.0 billion in the first six months of 2010 from \$37.9 billion in the first six months of 2009. A significant reduction in our securities servicing businesses would reduce our access to deposits.

The Parent has five major sources of liquidity:

- cash on hand;
- dividends from its subsidiaries;
- access to the commercial paper market;
- a revolving credit agreement with third party financial institutions; and
- access to the long-term debt and equity markets.

As a result of charges recorded in 2009 related to the restructuring of the investment securities portfolios, The Bank of New York Mellon and BNY Mellon, N.A. are required to obtain consent from our regulators prior to paying a dividend. Despite this limitation, management estimates that liquidity at the Parent will continue to be sufficient to meet BNY Mellon's ongoing quarterly dividends at the current level of \$0.09 per share. Based on projections, we currently expect this restriction to be lifted in the fourth quarter of 2010.

At June 30, 2010, our other bank subsidiaries had the ability to pay dividends of approximately \$212 million to the Parent without the need for a regulatory waiver. In addition, at June 30, 2010, nonbank subsidiaries of the Parent had liquid assets of approximately \$1.1 billion.

Any increase in BNY Mellon's ongoing quarterly dividends would require consultation with the Federal Reserve and, until the settlement of the equity forward contract executed in June 2010, may trigger an early valuation event under such forward contract.

Restrictions on our ability to obtain funds from our subsidiaries are discussed in more detail in Note 22 to the Notes to Consolidated Financial Statements contained in BNY Mellon's 2009 Annual Report on Form 10-K.

For the quarter ended June 30, 2010, the Parent's quarterly average commercial paper borrowings were \$11 million compared with \$263 million for the quarter ended June 30, 2009. The Parent had cash of \$3.0 billion at June 30, 2010 compared with \$4.4 billion at Dec. 31, 2009. 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 \$7 million at June 30, 2010 and \$12 million at Dec. 31, 2009. Net of commercial paper outstanding, the Parent's cash position at June 30, 2010 decreased by \$1.4 billion compared with Dec. 31, 2009 reflecting maturity of long-term debt. The Parent's liquidity target is to have sufficient cash on hand to meet its obligations over the next 18 months without the need to receive dividends from its bank subsidiaries or issue debt. As of June 30, 2010, the Parent met its liquidity target.

In July 2010, the Parent launched a new commercial paper program, which is in addition to the program discussed above, under which it may issue commercial paper to certain institutional accredited investors in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. Commercial paper notes issued under this program will have a maturity not exceeding 397 days from the date of issuance.

We currently have a \$226 million credit agreement with 10 financial institutions that matures in October 2011. The fee on this facility depends on our credit rating and at June 30, 2010 was 6 basis points. The credit agreement requires us to maintain:

- shareholders' equity of \$5 billion;
- a ratio of Tier 1 capital plus the allowance for credit losses to nonperforming assets of at least 2.5;
- a double leverage ratio less than 130% and

adequate capitalization of all our bank subsidiaries for regulatory purposes.

**Table of Contents**

We are currently in compliance with these covenants. There were no borrowings under this facility at June 30, 2010.

We also have the ability to access the capital markets. In June 2010, we filed shelf registration statements on Form S-3 with the Securities and Exchange Commission ( SEC ) covering the issuance of certain securities, including an unlimited amount of debt, common stock, preferred stock and trust preferred securities, as well as common stock issued under the Direct Stock Purchase and Dividend Reinvestment Plans.

Our ability to access capital markets on favorable terms, or at all, is partially dependent on our credit ratings, which, as of June 30, 2010 were as follows:

**Debt ratings at June 30, 2010**

	Moody's	Standard & Poor's	Fitch	DBRS
<b>Parent:</b>				
Long-term senior debt	Aa2	AA-	AA-	AA (low)
Subordinated debt	Aa3	A+	A+	A (high)
<b>The Bank of New York Mellon:</b>				
Long-term senior debt	Aaa	AA	AA-	AA
Long-term deposits	Aaa	AA	AA	AA
<b>BNY Mellon, N.A.:</b>				
Long-term senior debt	Aaa	AA	AA- (a)	AA
Long-term deposits	Aaa	AA	AA	AA
<b>Outlook</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b> (long-term)

(a) Represents senior debt issuer default rating.

In April 2010, one of the rating agencies announced that regulatory changes proposed by the Senate Regulatory Reform Bill, which has since been signed into law as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), could result in lower debt and deposit ratings for U.S. banks and other financial institutions whose ratings currently benefit from assumed government support. The rating agency anticipates that once implementing regulations clarify the final form of regulatory reform, the potentially affected ratings would be placed under review. The rating agency further indicated it would consider the pace over which any benefits resulting from regulatory reform would accrue versus the likely pace over which systemic support would be curtailed. Currently, the ratings for the Parent benefit from one notch of lift and The Bank of New York Mellon and BNY Mellon, N.A. benefit two notches of lift as a result of the rating agency's government support

assumptions. Other institutions benefit between one and five notches of lift. If these rating changes occur as proposed, the Parent, The Bank of New York Mellon and BNY Mellon, N.A. would remain at the highest level for all U.S. bank holding companies and U.S. banks.

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

In the second quarter of 2010, we issued \$650 million of senior long-term debt and \$500 million of senior long-term debt matured. The Parent has \$100 million of long-term debt that will mature in the remainder of 2010. The Parent has the option to call \$1.1 billion of subordinated debt in the remainder of 2010, which it may call and refinance if market conditions are favorable.

We have \$850 million of trust-preferred securities that are freely callable in 2010. These securities currently qualify as Tier 1 capital. Any decision to call these securities will be based on interest rates, the availability of cash and capital, and regulatory conditions, as well as the implementation of the Dodd-Frank Act, which eliminates these trust-preferred securities from the Tier 1 capital of large bank holding companies, including BNY Mellon, over a three year period beginning Jan. 1, 2013.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity plus trust preferred securities. Our double leverage ratios at June 30, 2010 and 2009 were 104.15% and 103.48%, respectively. Our target double leverage ratio is a maximum of 120%. 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 \$935 million extended by 14 financial institutions matures in March 2011. In the second quarter of 2010, the average borrowing against these lines of credit was \$176 million. Additionally, Pershing has another committed line of credit for \$125 million extended by one financial institution that matures in September 2010. The average borrowing against this line of credit was \$2 million during the second quarter of 2010. Pershing LLC



**Table of Contents**

has five separate uncommitted lines of credit amounting to \$1 billion in aggregate. Average daily borrowing under these lines was \$572 million, in aggregate, during the second quarter of 2010.

The committed line of credit maintained by Pershing LLC requires the Parent to maintain:

- shareholders' equity of \$5 billion;
- a ratio of Tier 1 capital plus the allowance for credit losses to nonperforming assets of at least 2.5; and
- a double leverage ratio less than 130%.

We are currently in compliance with these covenants.

Pershing Limited, an indirect U.K.-based 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 \$233 million extended by five financial institutions matures in March 2011. In the second quarter of 2010, there were no borrowings against these lines of credit. Pershing Limited has three separate uncommitted lines of credit amounting to \$250 million in aggregate. Average daily borrowing under these lines was \$5 million, in aggregate, during the second quarter of 2010.

*Statement of cash flows*

Cash used for operating activities was \$0.1 billion for the six months ended June 30, 2010, compared with \$0.3 billion provided by operating activities for

the six months ended June 30, 2009. In the first six months of 2010, changes in trading activities partially offset by earnings and depreciation and amortization were a significant use of funds. In the first six months of 2009, earnings, partially offset by changes in trading activities, accruals and other balances were a significant source of funds.

In the first six months of 2010, cash used for investing activities was \$14.3 billion compared with \$30.8 billion provided by investing activities in the first six months of 2009. In the first six months of 2010, an increase in interest-bearing deposits with the Federal Reserve and other central banks, margin loans and federal funds sold and securities purchased under resale agreements were a significant use of funds partially offset by a decrease in securities available for sale. In the first six months of 2009, a decrease in interest-bearing deposits with banks and the Federal Reserve and other central banks was a significant source of funds, partially offset by purchases of securities available for sale.

Through June 30, 2010, cash provided by financing activities was \$14.3 billion, compared to \$32.2 billion used for financing activities in the first six months of 2009. In the first six months of 2010, changes in deposits and other funds borrowed were a significant source of funds, partially offset by repayments of long-term debt. In the first six months of 2009, changes in deposits, other borrowed funds and the repurchase of the Series B preferred stock were significant uses of funds, partially offset by proceeds from issuances of long-term debt and common stock.

**Capital**

**Capital data**

*(dollar amounts in millions except per share amounts;*

<i>common shares in thousands)</i>	<b>June 30, 2010</b>	March 31, 2010	Dec. 31, 2009	June 30, 2009
Average total BNY Mellon shareholders' equity to average total assets	<b>13.3%</b>	13.2%	13.5%	13.9%

**At period end:**

Common shareholders' equity to total assets ratio	<b>12.9%</b>	13.5%	13.7%	13.4%
Total The Bank of New York Corporation shareholders' equity	<b>\$ 30,396</b>	\$ 29,683	\$ 28,977	\$ 27,276

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

Tangible common shareholders' equity	Non-GAAP (a)	\$ 11,331	\$ 10,537	\$ 9,540	\$ 7,945
Book value per common share		\$ 25.04	\$ 24.47	\$ 23.99	\$ 22.68
Tangible book value per common share	Non-GAAP (a)	\$ 9.33	\$ 8.69	\$ 7.90	\$ 6.60
Dividends per common share		\$ 0.09	\$ 0.09	\$ 0.09	\$ 0.09
Dividend yield		1.5%	1.2%	1.3%	1.2%
Closing common stock price per share		\$ 24.69	\$ 30.88	\$ 27.97	\$ 29.31
Market capitalization		\$ 29,975	\$ 37,456	\$ 33,783	\$ 35,255
Common shares outstanding		1,214,042	1,212,941	1,207,835	1,202,828

(a) See supplemental information beginning on page 50 for the reconciliation of GAAP to non-GAAP.

BNY Mellon 45

**Table of Contents**

Total The Bank of New York Mellon Corporation shareholders' equity increased compared with Dec. 31, 2009. The increase primarily reflects retained earnings in the first six months of 2010 and an unrealized gain in the investment securities portfolio resulting from improved credit spreads.

The unrealized net of tax gain on our available-for-sale securities portfolio recorded in other comprehensive income was \$162 million at June 30, 2010 compared with an unrealized net of tax loss of \$180 million at March 31, 2010. The improvement primarily reflects tightening credit spreads and a decline in interest rates.

In June 2010, BNY Mellon priced 25.9 million common shares in an underwritten public offering, at \$27.00 per common share, for a total of \$700 million. In connection with this offering, BNY Mellon has entered into a forward sale agreement with a forward purchaser, who borrowed and sold to the public through the underwriters shares of the Company's common stock. The Company will not receive any proceeds from the sale of its common stock until settlement of the forward sale agreement, which is expected to occur in the third quarter of 2010.

In July 2010, we declared a quarterly common stock dividend of \$0.09 per common share that will be paid on Aug. 10, 2010, to shareholders of record as of the close of business on July 30, 2010.

*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 must, among other things, qualify as well capitalized. In addition, major bank holding companies such as the Parent are expected by the regulators to be well capitalized.

As of June 30, 2010, the Parent and our bank subsidiaries were considered well capitalized on the basis of the ratios (defined by regulation) of Total and Tier 1 capital to risk-weighted assets and leverage (Tier 1 capital to average assets).

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

**Consolidated and largest bank****subsidiary capital ratios**

	Well capitalized	Adequately capitalized	<b>June 30, 2010</b>	March 31, 2010	Dec. 31, 2009	June 30, 2009
<b>Consolidated capital ratios:</b>						
Tier 1 capital	6%	4%	<b>13.5%</b>	13.3%	12.1%	12.5%
Total capital	10	8	<b>17.2</b>	17.2	16.0	16.0
Leverage	5	3	<b>6.6</b>	6.5	6.5	7.6
Tangible common shareholders' equity to tangible assets ratio						
Non-GAAP (a)			<b>6.3%</b>	6.1%	5.2%	4.8%
Tier 1 common equity to risk-weighted assets ratio (a)						
			<b>11.9</b>	11.6	10.5	11.1
<b>The Bank of New York Mellon capital ratios:</b>						
Tier 1 capital	6%	4%	<b>12.5%</b>	12.3%	11.2%	11.8%
Total capital	10	8	<b>16.5</b>	16.3	15.0	15.1
Leverage	5	3	<b>6.6</b>	6.6	6.3	7.6

(a) See Supplemental information beginning on page 50 for a calculation of this ratio.

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

The Tier 1 capital ratio varies depending on the size of the balance sheet at quarter-end and the level and types of investments. The balance sheet size fluctuates from quarter to quarter based on levels of 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.

Our Tier 1 capital ratio was 13.5% at June 30, 2010, compared with 13.3% at March 31, 2010, 12.1% at Dec. 31, 2009 and

12.5% at June 30, 2009. The increase from March 31, 2010 primarily reflects earnings retention, partially offset by higher risk-weighted assets.

In January 2010, the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of Thrift Supervision issued a final rule requiring banks to hold capital for assets consolidated under ASU 2009-16 and ASU

**Table of Contents**

2009-17. The final rule allows for (1) opting for a two-quarter delay through June 30, 2010, of recognition of the effect on risk-weighted assets and allowance for loan losses includable in Tier 2 capital that results from implementation of this standard and (2) a phase-in of 50% of those effects for the quarters ending Sept. 30, 2010 and Dec. 31, 2010 with full phase-in for the quarter ending March 31, 2011. BNY Mellon elected to defer the implementation of ASC 810 for capital purposes. At June 30, 2010, had we fully phased-in the implementation of ASC 810, our Tier 1 capital ratio would have been negatively impacted by approximately 136 basis points, assuming we had taken no mitigating actions.

A billion dollar change in risk-weighted assets changes the Tier 1 capital ratio by approximately 13 basis points while a

\$100 million change in common equity changes the Tier 1 capital ratio by approximately 10 basis points.

Our tangible common equity to tangible assets ratio was 6.3% at June 30, 2010, up from 6.1% at March 31, 2010, 5.2% at Dec. 31, 2009 and 4.8% at June 30, 2009. The increase compared with March 31, 2010 was due to earnings retention and the improvement in the unrealized gain on our available-for-sale securities portfolio, partially offset by a larger balance sheet at June 30, 2010.

At June 30, 2010, we had approximately \$1.7 billion of trust preferred securities outstanding, net of issuance costs, all of which currently qualifies as Tier 1 capital.

The following table presents the components of our risk-based capital at June 30, 2010, March 31, 2010, Dec. 31, 2009 and June 30, 2009, respectively.

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

<i>(in millions)</i>	<b>June 30, 2010</b>	March 31, 2010	Dec. 31, 2009	June 30, 2009
Tier 1 capital:				
Common shareholders equity	<b>\$ 30,396</b>	\$ 29,683	\$ 28,977	\$ 27,276
Trust-preferred securities	<b>1,663</b>	1,667	1,686	1,691
Adjustments for:				
Goodwill and other intangibles (b)	<b>(19,064)</b>	(19,145)	(19,437)	(19,331)
Pensions	<b>1,045</b>	1,062	1,070	1,085
Securities valuation allowance	<b>(162)</b>	180	619	4,352
Merchant banking investments	<b>(21)</b>	(21)	(32)	(29)
Total Tier 1 capital	<b>13,857</b>	13,426	12,883	15,044
Tier 2 capital:				
Qualifying unrealized gains on equity securities	<b>3</b>	4	3	1
Qualifying subordinate debt	<b>3,191</b>	3,330	3,429	3,611
Qualifying allowance for credit losses	<b>645</b>	639	665	617
Total Tier 2 capital	<b>3,839</b>	3,973	4,097	4,229
Total risk-based capital	<b>\$ 17,696</b>	\$ 17,399	\$ 16,980	\$ 19,273
Total risk-weighted assets	<b>\$ 102,807</b>	\$ 101,197	\$ 106,328	\$ 120,566

(a) On a regulatory basis and including discontinued operations.

(b) Reduced by deferred tax liabilities of \$2.4 billion at June 30, 2010, March 31, 2010, Dec. 31, 2009 and June 30, 2009 associated with non-tax deductible identifiable intangible assets and tax deductible goodwill.

**Trading activities and risk management**

Our trading activities are focused on acting as a market maker for our customers. The risk from these market making activities and from our own positions is managed by our traders and limited in total exposure through a system of position limits, a value-at-risk ( VAR ) methodology based on a Monte Carlo simulation, stop loss advisory triggers, and other market sensitivity measures. See Note 17 of the Notes to Consolidated

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

Financial Statements for additional information on the VAR methodology.

The following tables indicate the calculated VAR amounts for the trading portfolio for the periods indicated:

VAR (a)	2nd Quarter 2010			June 30, 2010
<i>(in millions)</i>	Average	Minimum	Maximum	
Interest rate	\$ 5.1	\$ 3.4	\$ 8.9	\$ 4.5
Foreign exchange	2.8	1.7	5.0	1.8
Equity	3.0	1.6	5.0	4.2
Credit	0.8	0.5	1.3	1.1
Diversification	(5.5)	N/M	N/M	(5.0)
Overall portfolio	6.2	3.5	10.1	6.6

BNY Mellon 47

**Table of Contents**

<b>VAR (a)</b> (in millions)	1st Quarter 2010			
	Average	Minimum	Maximum	2010
Interest rate	\$ 7.6	\$ 4.8	\$ 10.9	\$ 8.4
Foreign exchange	2.3	0.9	4.3	3.5
Equity	2.5	1.3	3.9	3.1
Credit	0.7	0.5	0.8	0.6
Diversification	(4.9)	N/M	N/M	(4.7)
Overall portfolio	8.2	5.5	11.4	10.9

<b>VAR (a)</b> (in millions)	2nd Quarter 2009			June 30,
	Average	Minimum	Maximum	2009
Interest rate	\$ 4.8	\$ 2.8	\$ 8.0	\$ 4.5
Foreign exchange	2.7	1.2	4.6	2.2
Equity	2.3	1.7	3.0	1.7
Credit	3.8	2.4	6.0	2.7
Diversification	(6.1)	N/M	N/M	(6.6)
Overall portfolio	7.5	4.5	12.6	4.5

<b>VAR (a)</b> (in millions)	Year-to-date 2010		
	Average	Minimum	Maximum
Interest rate	\$ 6.4	\$ 3.4	\$ 10.9
Foreign exchange	2.6	0.9	5.0
Equity	2.7	1.3	5.0
Credit	0.7	0.5	1.3
Diversification	(5.2)	N/M	N/M
Overall portfolio	7.2	3.5	11.4

<b>VAR (a)</b> (in millions)	Year-to-date 2009		
	Average	Minimum	Maximum
Interest rate	\$ 4.9	\$ 2.8	\$ 8.0
Foreign exchange	2.5	1.2	5.6
Equity	2.9	1.6	8.1
Credit	4.1	2.4	7.5
Diversification	(6.5)	N/M	N/M
Overall portfolio	7.9	4.5	13.2

(a) VAR figures do not reflect the impact of the credit valuation adjustment guidance in ASC 820. This is consistent with the Regulatory treatment.

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

During the second quarter of 2010, interest rate risk generated 43% of average VAR, equity risk generated 26% of average VAR, foreign exchange risk generated 24% of average VAR and credit risk generated 7% of average VAR. During the second quarter of 2010, our daily trading loss did not exceed our calculated VAR amount on any given day.

BNY Mellon monitors a volatility index of global currency using a basket of 30 major currencies. In the second quarter of 2010, the volatility of this index increased approximately 36 basis points from the first quarter of 2010.

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

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

<i>(dollar amounts)</i>  (in millions)	Quarter ended				
	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010

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

Revenue range:	Number of days				
Less than \$(2.5)	2	-	1	-	<b>1</b>
\$(2.5) - \$0	2	5	5	3	<b>2</b>
\$0 - \$2.5	11	16	13	15	<b>18</b>
\$2.5 - \$5.0	23	24	22	22	<b>21</b>
More than \$5.0	26	19	21	21	<b>22</b>

(a) *Distribution of trading revenues (losses) does not reflect the impact of the credit valuation adjustment guidance in ASC 820. This is consistent with the Regulatory treatment.*

### **Foreign exchange and other trading**

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

As required by ASC 820 - *Fair Value Measurements and Disclosures*, we reflect external credit ratings as well as observable credit default swap spreads for both ourselves as well as our counterparties when measuring the fair value of our derivative positions.

Accordingly, the valuation of our derivative positions is sensitive to the current changes in our own credit spreads, as well as those of our counterparties. In addition, in cases where a counterparty is deemed impaired, further analyses are performed to value such positions.

At June 30, 2010, our over-the-counter ( OTC ) derivative assets of \$5.2 billion included a credit valuation adjustment ( CVA ) deduction of \$131 million, including \$65 million related to the credit quality of certain CDO counterparties and Lehman. Our OTC derivative liabilities of \$6.0 billion included \$20 million of debit valuation adjustments ( DVA ) related to our own credit spread.

Adjustments to the CVA and DVA decreased foreign exchange and other trading activities revenue by \$43 million in the second quarter of 2010. Adjustments related to exposure that we applied our own credit spread to decreased foreign exchange and other trading activities revenue by \$5 million in the second quarter of 2010.



**Table of Contents**

The table below summarizes the risk ratings for our foreign exchange, interest rate and equity derivative counterparty credit exposure.

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

	June 30, 2009	Sept. 30, 2009	Quarter ended Dec. 31, 2009	March 31, 2010	June 30, 2010
Rating:					
AAA to AA-	57%	58%	56%	54%	52%
A+ to A-	20	17	22	23	19
BBB+ to BBB-	14	16	15	16	22
Noninvestment grade (BB+ and lower)	9	9	7	7	7
Total	100%	100%	100%	100%	100%

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

**Asset/liability management**

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

An earnings simulation model is the primary tool used to assess changes in pre-tax net interest revenue. The model incorporates management's assumptions regarding interest rates, balance changes on core deposits, market spreads, changes in the prepayment behavior of loans and securities and the impact of derivative financial instruments used for interest rate risk management purposes. These assumptions have been developed through a combination of historical analysis and future expected pricing behavior and are inherently uncertain. As a result, the earnings simulation model cannot precisely estimate net interest revenue or the impact of higher or lower interest rates on net interest revenue. Actual results may differ from projected results due to timing, magnitude and frequency of interest rate changes, and changes in market conditions and management's strategies, among other factors.

We evaluate the effect on earnings by running various interest rate ramp scenarios from a baseline scenario. These scenarios

are reviewed to examine the impact of large interest rate movements. Interest rate sensitivity is quantified by calculating the change in pre-tax net interest revenue between the scenarios over a 12-month measurement period.

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

**Estimated changes in net interest revenue****at June 30, 2010**

(dollar amounts in millions)

	Sensitivity	
	\$	%
up 200 bps vs. baseline	\$ 364	12.6%
up 100 bps vs. baseline	236	8.1

bps - basis points.

The baseline scenario's Fed Funds rate in the June 30, 2010 analysis was 0.25%. The 100 basis point ramp scenario assumes short-term 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. Both the up 200 basis point and the up 100 basis point June 30, 2010 scenarios assume 10-year rates rise 250 and 150 basis points, respectively.

These scenarios do not reflect strategies that management could employ to limit the impact as interest rate expectations change. The previous table relies on certain critical assumptions regarding the balance sheet and depositors' behavior related to interest rate fluctuations and the

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

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.

### **Off-balance-sheet financial instruments**

Off-balance sheet arrangements discussed in this section are limited to guarantees, retained or contingent interests, support agreements and certain derivative instruments related to our common stock. For BNY Mellon, these items include certain credit guarantees and securitizations. Guarantees include: lending-related guarantees issued as part of our corporate banking business; securities lending indemnifications issued as part of our servicing and fiduciary businesses and support agreements issued to customers in our asset servicing and asset management businesses.

See the Support agreements section and Note 18 of the Notes to Consolidated Financial Statements for a further discussion of our off-balance sheet arrangements.

BNY Mellon 49

**Table of Contents****Supplemental information Explanation of Non-GAAP financial measures**

BNY Mellon has included in this Form 10-Q certain Non-GAAP financial measures based upon tangible common shareholders' equity. BNY Mellon believes that the ratio of tangible common shareholders' equity to tangible total assets of operations is a measure of capital strength that adds additional useful information to investors, supplementing the Tier 1 capital ratio which is utilized by regulatory authorities. Unlike the Tier 1 capital ratio, the tangible common shareholders' equity ratio fully incorporates those changes in investment securities valuations which are reflected in 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. This ratio is also informative to investors in BNY Mellon's common stock because, unlike the Tier 1 capital ratio, it excludes trust preferred securities issued by BNY Mellon. Further, BNY Mellon believes that the return on tangible common equity measure, which excludes goodwill and intangible assets net of deferred tax liabilities, is a useful additional measure for investors because it presents a measure of BNY Mellon's performance in reference to those assets which are productive in generating income.

BNY Mellon has provided a measure of tangible book value per share which it believes provides additional useful information as to the level of such assets in relation to shares of common stock outstanding. BNY Mellon has presented revenue measures which exclude the effect of net securities gains (losses) and noncontrolling interests related to consolidated asset management funds; and expense measures which exclude special litigation reserves taken in the first quarter of 2010, the FDIC special assessment, restructuring charges, M&I expenses and intangible amortization expenses, and measures which utilize net income excluding tax items such as benefit of tax settlements. Return on equity measures and operating margin measures which exclude some or all of these items are also presented. BNY Mellon believes that these measures are useful to investors because they permit a focus on period to period comparisons which relate to the ability of BNY Mellon to enhance revenues and limit expenses in circumstances where such matters are

within BNY Mellon's control. The excluded items in general relate to situations where accounting rules require certain ongoing charges as a result of prior transactions, or where valuation or other accounting/regulatory requirements require charges unrelated to operational initiatives. M&I expenses primarily relate to the merger with Mellon Financial Corporation in 2007. M&I expenses generally continue for approximately three years after the transaction, and can vary on a year-to-year basis depending on the stage of the integration. BNY Mellon believes that the exclusion of M&I expenses provides investors with a focus on BNY Mellon's business as it would appear on a consolidated going-forward basis, after such M&I expenses have ceased, typically after approximately three years. Future periods will not reflect such M&I expenses, and thus may be more easily compared to our current results if M&I expenses are excluded. With regards to the exclusion of net securities gains (losses), BNY Mellon's primary businesses are Asset and Wealth Management and Institutional Services. The management of these sectors is evaluated on the basis of the ability of these businesses to generate fee and net interest revenue and to control expenses, and not on the results of BNY Mellon's investment securities portfolio. Management of the investment securities portfolio is a shared service contained in the Other segment. The primary objective of the investment securities portfolio is to generate net interest revenue from the liquidity generated by BNY Mellon's processing businesses. BNY Mellon does not generally originate or trade the securities in the investment securities portfolio. With regards to higher yields related to the restructured investment securities portfolio, client deposits serve as the primary funding source for our investment securities portfolio and we typically allocate all interest revenue to the businesses generating the deposits. Accordingly, the higher yield related to the restructured investment securities portfolio has been included in the segment results. Restructuring charges relate to migrating positions to global growth centers and the elimination of certain positions.

Excluding the benefit of tax settlements permits investors to calculate the tax impact of BNY Mellon's primary businesses. The presentation of financial measures excluding special litigation reserves in the first quarter of 2010 provides investors with the ability to view performance metrics on the basis that management views results. The presentation of income of consolidated asset management funds, net of noncontrolling interests

**Table of Contents**

related to the consolidation of certain asset management funds, permits investors to view revenue on a basis consistent with prior periods. BNY Mellon believes that these presentations, as a supplement to GAAP information, gives investors a clearer picture of the results of its primary businesses.

In this Form 10-Q, certain amounts are presented on an FTE basis. We believe that this presentation provides comparability

of amounts arising from both taxable and tax-exempt sources, and is consistent with industry practice. The adjustment to an FTE basis has no impact on net income.

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

**Reconciliation of income (loss) from continuing operations before income taxes pre-tax operating margin**

<i>(dollars in millions)</i>	2Q10	1Q10	2Q09	YTD10	YTD09
Income (loss) from continuing operations before income taxes GAAP	\$ 1,006	\$ 884	\$ 513	\$ 1,890	\$ 1,085
Less: Net securities gains (losses)	13	7	(256)	20	(551)
Noncontrolling interests of consolidated asset management funds	33	24	-	57	-
Add: Special litigation reserves	N/A	164	N/A	164	N/A
FDIC special assessment	-	-	61	-	61
M&I expenses	14	26	59	40	127
Restructuring charges	(15)	7	6	(8)	16
Intangible amortization	98	97	108	195	215
Income (loss) from continuing operations before income taxes excluding net securities gains (losses), noncontrolling interests of consolidated asset management funds, special litigation reserves, FDIC special assessment, M&I expenses, restructuring charges and intangible amortization Non-GAAP	\$ 1,057	\$ 1,147	\$ 1,003	\$ 2,204	\$ 2,055
Fee and other revenue GAAP	\$ 2,571	\$ 2,549	\$ 2,257	\$ 5,120	\$ 4,393
Income of consolidated asset management funds GAAP	65	65	-	130	-
Net interest revenue GAAP	722	765	700	1,487	1,475
Total revenue GAAP	3,358	3,379	2,957	6,737	5,868
Less: Net securities gains (losses)	13	7	(256)	20	(551)
Noncontrolling interests of consolidated asset management funds	33	24	-	57	-
Total revenue excluding net securities gains (losses) and noncontrolling interests of consolidated asset management funds Non-GAAP	\$ 3,312	\$ 3,348	\$ 3,213	\$ 6,660	\$ 6,419
Pre-tax operating margin (a)	30%	26%	17%	28%	18%
Pre-tax operating margin excluding net securities gains (losses), noncontrolling interests of consolidated asset management funds, special litigation reserves, FDIC special assessment, M&I expenses, restructuring charges and intangible amortization Non-GAAP (a)	32%	34%	31%	33%	32%

(a) *Income (loss) before taxes divided by total revenue.*

N/A *Not applicable.*

**Asset servicing revenue**

<i>(in millions)</i>	2Q10	1Q10	2Q09
Asset servicing revenue	\$ 668	\$ 637	\$ 671
Less: Securities lending fee revenue	46	29	97
Asset servicing revenue excluding securities lending fee revenue	\$ 622	\$ 608	\$ 574

Asset and wealth management fee revenue

2Q10 vs.

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

<i>(dollars in millions)</i>	<b>2Q10</b>	1Q10	2Q09	<b>1Q10</b>	2Q09
Asset and wealth management fee revenue	<b>\$ 676</b>	\$ 678	\$ 637	-%	6%
Less: Performance fees	<b>19</b>	13	26		
Add: Revenue from consolidated asset management funds, net of noncontrolling interests	<b>29</b>	25	-		
Asset and wealth management fee revenue excluding performance fees	<b>\$ 686</b>	\$ 690	\$ 611	(1)%	12%

51 BNY Mellon

**Table of Contents****Return on common equity and tangible common equity continuing operations**

<i>(dollars in millions)</i>	2Q10	1Q10	2Q09	YTD10	YTD09
Net income applicable to common shareholders of The Bank of New York Mellon Corporation GAAP	\$ 658	\$ 559	\$ 176	\$ 1,217	\$ 498
Less: Loss from discontinued operations, net of tax	(10)	(42)	(91)	(52)	(132)
Net income from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation	668	601	267	1,269	630
Add: Intangible amortization	60	62	67	122	133
Net income from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation excluding intangible amortization Non-GAAP	728	663	334	1,391	763
Less: Net securities gains (losses)	8	5	(161)	13	(344)
Add: Special litigation reserves	N/A	98	N/A	98	N/A
FDIC special assessment	-	-	36	-	36
M&I expenses	9	16	36	25	77
Restructuring charges	(9)	5	4	(4)	11
Benefit of tax settlements	-	-	(134)	-	(134)
Net income from continuing operations excluding net securities gains (losses), special litigation reserves, FDIC special assessment, M&I expenses, restructuring charges, benefit of tax settlements and intangible amortization Non-GAAP	\$ 720	\$ 777	\$ 437	\$ 1,497	\$ 1,097
Average common shareholders equity	\$ 30,434	\$ 29,715	\$ 26,566	\$ 30,076	\$ 25,881
Less: Average goodwill	16,073	16,143	15,989	16,108	15,913
Average intangible assets	5,421	5,513	5,673	5,466	5,713
Add: Deferred tax liability tax deductible goodwill	746	720	643	746	643
Deferred tax liability non-tax deductible intangible assets	1,649	1,660	1,743	1,649	1,743
Average tangible common shareholders equity Non-GAAP	\$ 11,335	\$ 10,439	\$ 7,290	\$ 10,897	\$ 6,641
Return on common equity GAAP (a)	8.8%	8.2%	4.0%	8.5%	4.9%
Return on common equity excluding net securities gains (losses), special litigation reserves, FDIC special assessment, M&I expenses, restructuring charges, benefit of tax settlements and intangible amortization Non-GAAP (a)	9.5%	10.6%	6.6%	10.0%	8.6%
Return on tangible common equity Non-GAAP (a)	25.8%	25.8%	18.4%	25.7%	23.2%
Return on tangible common equity excluding net securities gains (losses), special litigation reserves, FDIC special assessment, M&I expenses, restructuring charges and benefit of tax settlements Non-GAAP (a)	25.5%	30.2%	24.0%	27.7%	33.3%

(a) Annualized.

N/A Not applicable.

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

<i>(dollars in millions)</i>	June 30, 2010	March 31, 2010	June 30, 2009
Total Tier 1 capital	\$ 13,857	\$ 13,426	\$ 15,044
Less: Trust preferred securities	1,663	1,667	1,691
Total Tier 1 common equity	\$ 12,194	\$ 11,759	\$ 13,353
Total risk-weighted assets	\$ 102,807	\$ 101,197	\$ 120,566
Tier 1 common equity to risk-weighted assets ratio	11.9%	11.6%	11.1%

(a) On a regulatory basis.

**Table of Contents**

Equity to assets and book value per common share	June 30,		
<i>(dollars in millions, unless otherwise noted)</i>	June 30, 2010	March 31, 2010	2009
Common shareholders' equity at period end GAAP	\$ 30,396	\$ 29,683	\$ 27,276
Less: Goodwill	16,106	16,077	16,040
Intangible assets	5,354	5,449	5,677
Add: Deferred tax liability tax deductible goodwill	746	720	643
Deferred tax liability non-tax deductible intangible assets	1,649	1,660	1,743
Tangible common shareholders' equity at period end Non-GAAP	\$ 11,331	\$ 10,537	\$ 7,945
Total assets at period end GAAP	\$ 235,693	\$ 220,551	\$ 203,012
Less: Assets of consolidated asset management funds	13,260	12,568	-
Total assets of operations Non-GAAP	222,433	207,983	203,012
Less: Goodwill	16,106	16,077	16,040
Intangible assets	5,354	5,449	5,677
Cash on deposit with the Federal Reserve and other central banks (a)	21,548	14,709	16,458
Tangible total assets of operations at period end Non-GAAP	\$ 179,425	\$ 171,748	\$ 164,837
Common shareholders' equity to total assets GAAP	12.9%	13.5%	13.4%
Tangible common shareholders' equity to tangible total assets of operations Non-GAAP	6.3%	6.1%	4.8%
Period end common shares outstanding (in thousands)	1,214,042	1,212,941	1,202,828
Book value per common share	\$ 25.04	\$ 24.47	\$ 22.68
Tangible book value per common share Non-GAAP	\$ 9.33	\$ 8.69	\$ 6.60

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

**Recent accounting and regulatory developments***ASU 2010-11 Scope Exception Related to Embedded Credit Derivatives*

In March 2010, the Financial Accounting Standards Board ( FASB ) issued ASU 2010-11, Scope Exception Related to Embedded Credit Derivatives. This ASU amends Subtopic 815-15 to clarify the scope of the exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. It addresses how to determine which embedded credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations are considered to be embedded derivatives that should not be analyzed for potential bifurcation and separate accounting. This ASU was effective July 1, 2010. The impact of this ASU is not expected to be material to our results of operations.

*ASU 2010-18 Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset*

In April 2010, the FASB issued ASU 2010-18, Effect of a Loan Modification when the Loan is Part of a Pool that is Accounted for as a Single Asset. This ASU provides guidance that would maintain the integrity of the pool as a single unit of account and exempt these loans from troubled debt

restructuring reporting. Modified purchased credit impaired loans accounted for in a pool would remain in the pool subject to ASC 310-30 regardless of whether the modification is a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This ASU does not contain any additional disclosure requirements. This ASU was effective July 1, 2010. The impact of this ASU is not expected to be material to our results of operations.

*ASU 2010-20 Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU requires additional disclosures about the allowance for credit losses and the credit quality of financing receivables. This ASU defines two levels of disaggregation portfolio segment and class of financing receivable. Existing disclosures are amended to require: rollforward schedule of allowance for credit losses, with the ending balance further disaggregated on the basis of impairment method; related recorded investment in each ending balance noted above; nonaccrual status by class of financing receivable; and impaired financing receivables by class of financing receivables. This ASU requires the following additional disclosures:





**Table of Contents**

credit quality indicators by class of financing receivable; aging of past due financing receivables by class; nature and extent of troubled debt restructuring by class of financing receivable and their effect on allowance for credit losses; nature and extent of financing receivables modified as troubled debt restructurings by class and their effect on the allowance for credit losses; and significant purchases and sales by portfolio segment. These disclosures are required for interim and annual financial statements and are effective Dec. 31, 2010.

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

In May 2010, the FASB issued Proposed ASU, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. Under this proposed ASU, most financial instruments would be measured at fair value in the balance sheet. However, information about the amortized cost of certain financial instruments would also be presented when an entity's business strategy involves holding the financial instrument for collection or payment of contractual cash flows. At inception, all financial instruments would be classified as either: (1) fair value, with changes in fair value recognized in net income (default category); (2) fair value, with qualifying changes in fair value recognized in OCI (elective for qualifying debt instruments); or (3) amortized cost (elective for qualifying liabilities and short-term payables and receivables). Comments on this proposed ASU are due Sept. 30, 2010. The effective date will be determined by the FASB when it issues the final ASU.

*Proposed ASU Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*

In June 2010, the FASB issued Proposed ASU, Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This proposed ASU is the result of a joint project of the FASB and International Accounting Standards Board (IASB) to converge fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRS). This proposed ASU would change the wording used to describe many of the principles and requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value

measurements, and would change how the fair value measurement guidance in ASC 820 is applied. This proposed ASU would also require several new disclosures: (a) measurement uncertainty disclosures, (b) reasons if an entity's use of an asset is different from its highest and best use, and (c) fair value hierarchy disclosures for financial institutions not measured at fair value. Comments on this proposed ASU are due on Sept. 7, 2010. The effective date will be determined after the FASB considers the feedback on this proposed ASU.

*Proposed ASU Revenue from Contracts with Customers*

In June 2010, the FASB issued Proposed ASU, Revenue from Contracts with Customers. This proposed ASU is the result of a joint project of the FASB and IASB to clarify the principles for recognizing revenue and develop a common standard for U.S. GAAP and IFRS. This proposed ASU would establish a broad principle that would require an entity to identify the contract with a customer, identify the separate performance obligations in the contract, determine the transaction price, allocate the transaction price to the separate performance obligations, and recognize revenue when each separate performance obligation is satisfied. Comments on this proposed ASU are due on Oct. 22, 2010. The effective date will be determined after the FASB considers the feedback on this proposed ASU.

*Proposed ASU Disclosure of Certain Loss Contingencies*

In July 2010, the FASB issued Proposed ASU, Disclosure of Certain Loss Contingencies. This proposed ASU would require an entity to disclose qualitative and quantitative information about loss contingencies to enable financial statement users to understand the nature of loss contingencies, their potential magnitude and their potential timing (if known). Available information may be limited during the early stages of a loss contingency's life cycle and therefore, disclosure may be less extensive in early stages of a loss contingency. In subsequent reporting periods, disclosure may be more extensive as additional information about a potentially

## **Table of Contents**

unfavorable outcome becomes available. Additionally, an entity may aggregate disclosures about similar contingencies so that the disclosures are understandable and not too detailed. An entity would also then disclose the basis for aggregation. Comments on this proposed FASB are due on Aug. 20, 2010. The proposed FASB would be effective Dec. 31, 2010.

### *Adoption of new accounting standards*

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

### *Regulatory developments*

We are currently assessing the following regulatory developments, which may have an impact on BNY Mellon's business.

#### *Regulatory reform*

In July 2010, Congress enacted regulatory reform legislation known as the Dodd-Frank Wall Street Reform and Consumer Protection Act, which the President signed into law on July 21, 2010. This new law broadly affects the financial services industry by establishing a framework for systemic risk oversight, creating a resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and containing numerous other provisions aimed at strengthening the sound operation of the financial services sector and will fundamentally change the system of oversight described under Business Supervision and Regulation in Part I, Item 1 of our Annual Report on Form 10-K for the fiscal year ended Dec. 31, 2009. Many aspects of the law are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to BNY Mellon or across the industry.

#### *Proposed FDIC assessments*

On April 13, 2010, the FDIC issued a notice of proposed rulemaking ( NPR ) which would revise the risk-based assessment system for all large insured depository institutions; and alter the initial and total base assessment rates for all insured depository institutions. The NPR would: eliminate risk categories and the use of long-term debt issuer ratings in calculating risk-based assessments for large institutions; use two scorecards – one for most large institutions and another for

large institutions that are structurally and operationally complex or that pose unique challenges and risks in the event of failure (highly complex institutions) – to calculate the assessment rates for all large institutions; allow the FDIC to take additional information into account to make limited adjustments to the scores; and use the scorecard to determine the assessment rate for each institution.

The NPR would also alter assessment rates applicable to all insured depository institutions to ensure that the revenue collected under the new assessment system would approximately equal that collected under the existing assessment system and ensure that the lowest rate applicable to small and large institutions would be the same. The proposed changes would be effective Jan. 1, 2011.

The Dodd-Frank Act also changes the deposit insurance assessment framework, primarily by basing assessments on an institution's total assets less tangible equity (subject to further adjustment for custodial banks) rather than domestic deposits, which is expected to shift to a greater portion of the aggregate assessments to large banks.

#### *Proposed Financial Crisis Responsibility Fee*

In January 2010, President Obama proposed a Financial Crisis Responsibility Fee which would apply to banks, thrifts, insurance companies and broker-dealers with more than \$50 billion in consolidated assets. The fee is intended to recoup the cost of the Troubled Asset Relief Program ( TARP ) to the U.S. Government. As proposed, the fee would be calculated on total assets excluding Tier 1 capital and assessed deposits and would remain in force for 10 years or longer. Based on the amount of assets on our balance sheet at June 30, 2010, we estimate that we would be responsible for paying approximately \$200 million annually under this proposal, if enacted as currently proposed.

#### *Basel Committee Proposed capital and liquidity reforms*

On Dec. 17, 2009, the Basel Committee issued two consultative documents proposing reforms to bank capital and liquidity regulation. The documents were titled *Strengthening the Resilience of the Banking Sector*, which proposed reforms to bank capital, and *International Framework for Liquidity Risk Management, Standards and Monitoring*. On July 26, 2010, the Committee announced that it had



---

## **Table of Contents**

reached a broad agreement on the overall design of the capital and liquidity requirements that were proposed in the consultative documents.

### *IFRS*

International Financial Reporting Standards ( IFRS ) are a set of standards and interpretations adopted by the International Accounting Standards Board. The SEC is currently considering a potential IFRS adoption process in the U.S., 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. The SEC will monitor progress of these milestones between now and 2011, when the SEC plans to consider requiring U.S. public companies to adopt IFRS.

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 U.S. and reducing country-by-country disparities in financial reporting. The SEC is developing a work plan to aid in its evaluation of the impact of IFRS on the U.S. securities market. If the SEC determines in 2011 to incorporate IFRS into the U.S. financial reporting system, and the work plan validates the four-to-five year timeline for implementation, the first time that U.S. companies would report under IFRS would be no earlier than 2015.

While the SEC decides whether IFRS will be required to be used in the preparation of our consolidated financial statements, a number of countries have mandated the use of IFRS by BNY Mellon's subsidiaries in their statutory reports. Such countries include the Netherlands, Australia and Hong Kong. Other countries which have established an IFRS conversion time frame which will affect our statutory reporting include Belgium (2010), Brazil (2010), Canada (2011), South Korea (2011), the United Kingdom (2012) and Ireland (2012).

## **Government monetary policies and competition**

### *Government monetary policies*

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

### *Competition*

BNY Mellon is subject to intense competition in all aspects and areas of our business. Our Asset Management and Wealth Management business segments experience competition from asset management firms; hedge funds; investment banking companies; bank and financial holding companies; banks, including trust banks; brokerage firms; and insurance companies. These firms and companies may be domiciled domestically or internationally. Our Asset Servicing, Clearing Services and Treasury Services business segments compete with domestic and foreign banks that offer institutional trust, custody and cash management products as well as a wide range of technologically capable service providers, such as data processing and shareholder service firms and other firms that rely on automated data transfer services for institutional and retail customers.

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

As a result of current conditions in the global financial markets and the economy in general, competition could intensify and consolidation of financial service companies could increase.

As part of our business strategy, we seek to distinguish ourselves from competitors by the level of service we deliver to clients. We also believe that technological innovation is an important competitive



## **Table of Contents**

factor, and, for this reason, have made and continue to make substantial investments in this area. The ability to recover quickly from unexpected events is a competitive factor, and we have devoted significant resources to this. See Item 1, Business Competition in our 2009 Annual Report on Form 10-K.

### **Website information**

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

All of our SEC filings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, SEC Forms 3, 4 and 5 and any proxy statement mailed in connection with the solicitation of proxies; Financial statements and footnotes prepared using Extensible Business Reporting Language ( XBRL ); Our earnings releases and selected management conference calls and presentations; and Our Corporate Governance Guidelines and the charters of the Audit, Corporate Governance and Nominating, Human Resources and Compensation, Risk and Corporate Social Responsibility Committees of our Board of Directors.

The contents of the website listed above are not incorporated into this Quarterly Report on Form 10-Q.

The SEC reports, the Corporate Governance Guidelines 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 Secretary of The Bank of New York Mellon Corporation, One Wall Street, 9<sup>th</sup> Floor, New York, NY 10286.

**Table of Contents****Item 1. Financial Statements****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Income Statement (unaudited)**

<i>(in millions)</i>	Quarter ended <b>June 30,</b> <b>2010</b>	March 31, 2010	June 30, 2009	Six months ended <b>June 30,</b> <b>2010</b>	June 30, 2009
<b>Fee and other revenue</b>					
Securities servicing fees:					
Asset servicing	\$ 668	\$ 637	\$ 671	\$ 1,305	\$ 1,280
Issuer services	354	333	372	687	736
Clearing services	245	230	250	475	503
Total securities servicing fees	1,267	1,200	1,293	2,467	2,519
Asset and wealth management fees	676	678	637	1,354	1,253
Foreign exchange and other trading activities	220	262	237	482	544
Treasury services	125	131	132	256	257
Distribution and servicing	77	76	107	153	218
Financing-related fees	48	50	54	98	102
Investment income	72	108	44	180	27
Other	73	37	9	110	24
Total fee revenue	2,558	2,542	2,513	5,100	4,944
Securities gains (losses) other-than-temporary-impairment	9	(20)	(680)	(11)	(2,265)
Noncredit-related (losses) on securities not expected to be sold (recognized in OCI)	(4)	(27)	(424)	(31)	(1,714)
Net securities gains (losses)	13	7	(256)	20	(551)
Total fee and other revenue	2,571	2,549	2,257	5,120	4,393
<b>Operations of consolidated asset management funds</b>					
Investment income	188	155	-	343	-
Interest of asset management fund note holders	123	90	-	213	-
Income of consolidated asset management funds	65	65	-	130	-
<b>Net interest revenue</b>					
Interest revenue	862	883	845	1,745	1,824
Interest expense	140	118	145	258	349
Net interest revenue	722	765	700	1,487	1,475
Provision for credit losses	20	35	61	55	120
Net interest revenue after provision for credit losses	702	730	639	1,432	1,355
<b>Noninterest expense</b>					
Staff	1,234	1,220	1,153	2,454	2,322
Professional, legal and other purchased services	256	241	237	497	474
Net occupancy	143	137	142	280	281
Distribution and servicing	106	109	106	215	213
Software	91	94	93	185	174
Furniture and equipment	71	75	76	146	153
Business development	68	52	49	120	93
Sub-custodian	65	52	60	117	99
Other	201	350	294	551	496
Subtotal	2,235	2,330	2,210	4,565	4,305
Amortization of intangible assets	98	97	108	195	215
Restructuring charges	(15)	7	6	(8)	16
Merger and integration expenses	14	26	59	40	127
Total noninterest expense	2,332	2,460	2,383	4,792	4,663
<b>Income</b>					
Income from continuing operations before income taxes	1,006	884	513	1,890	1,085
Provision for income taxes	304	258	12	562	173
Income from continuing operations	702	626	501	1,328	912
Discontinued operations:					
Loss from discontinued operations	(16)	(70)	(144)	(86)	(209)
Benefit for income taxes	(6)	(28)	(53)	(34)	(77)
Loss from discontinued operations, net of tax	(10)	(42)	(91)	(52)	(132)
Net income	692	584	410	1,276	780
	(34)	(25)	2	(59)	1

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

Net (income) loss attributable to noncontrolling interests (\$33 for quarter ended June 30, 2010, \$24 for quarter ended March 31, 2010 and \$57 for six months ended June 30, 2010 related to asset management funds)						
Redemption charge and preferred dividends	-	-	(236)	-	(283)	
Net income applicable to common shareholders of The Bank of New York Mellon Corporation	<b>\$ 658</b>	\$ 559	\$ 176	<b>\$ 1,217</b>	\$ 498	

58 BNY Mellon



**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Income Statement (unaudited)** continued**Earnings per share applicable to the common shareholders of The Bank of New York Mellon Corporation (a)**

	June 30,	Quarter ended	June 30,	Six months ended	June 30,
(in dollars)	2010	March 31,	2009	June 30,	2009
		2010		2010	
<i>Basic:</i>					
Net income from continuing operations	\$ 0.55	\$ 0.50	\$ 0.23	\$ 1.04	\$ 0.54
Loss from discontinued operations	(0.01)	(0.04)	(0.08)	(0.04)	(0.11)
Net income applicable to common stock	\$ 0.54	\$ 0.46	\$ 0.15	\$ 1.00	\$ 0.43
<i>Diluted (b):</i>					
Net income from continuing operations	\$ 0.55	\$ 0.49	\$ 0.23	\$ 1.04	\$ 0.54
Loss from discontinued operations	(0.01)	(0.03)	(0.08)	(0.04)	(0.11)
Net income applicable to common stock	\$ 0.54	\$ 0.46	\$ 0.15	\$ 1.00	\$ 0.43

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

	June 30,	Quarter ended	June 30,	Six months ended	June 30,
(in thousands)	2010	March 31,	2009	June 30,	2009
		2010		2010	
Basic	1,204,557	1,202,533	1,171,081	1,203,554	1,158,649
Common stock equivalents	10,314	10,042	9,636	10,175	7,718
Participating securities	(6,041)	(6,289)	(6,251)	(6,151)	(5,747)
Diluted	1,208,830	1,206,286	1,174,466	1,207,578	1,160,620
Anti-dilutive securities (c)	93,012	83,019	102,593	88,026	102,808

**Reconciliation of net income from continuing operations applicable to the common shareholders of The Bank of New York Mellon Corporation**

	June 30,	Quarter ended	June 30,	Six months ended	June 30,
(in millions)	2010	March 31,	2009	June 30,	2009
		2010		2010	
Net income from continuing operations	\$ 702	\$ 626	\$ 501	\$ 1,328	\$ 912
Net (income) loss attributable to noncontrolling interests	(34)	(25)	2	(59)	1
Redemption charge and preferred dividends	-	-	(236)	-	(283)
Net income from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation	668	601	267	1,269	630
Loss from discontinued operations	(10)	(42)	(91)	(52)	(132)
Net income applicable to the common shareholders of the Bank of New York Mellon Corporation	\$ 658	\$ 559	\$ 176	\$ 1,217	\$ 498

(a) Basic and diluted earnings per share under the two-class method were calculated after deducting earnings allocated to participating securities of \$7 million in the second quarter of 2010, \$5 million in the first quarter of 2010, \$2 million in the second quarter of 2009, \$12 million in the first six months of 2010 and \$5 million in the first six months of 2009.

(b) Prior to the issuance of our common stock, which will occur at the settlement of the forward sale agreement, the forward sale agreement was reflected in our diluted earnings per share calculations using the treasury stock method.

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

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Balance Sheet (unaudited)**

	June 30, 2010	Dec. 31, 2009
<i>(dollar amounts in millions, except per share amounts)</i>		
<b>Assets</b>		
Cash and due from:		
Banks	\$ 3,569	\$ 3,732
Interest-bearing deposits with the Federal Reserve and other central banks	21,579	7,362
Interest-bearing deposits with banks	53,396	56,302
Federal funds sold and securities purchased under resale agreements	4,453	3,535
Securities:		
Held-to-maturity (fair value of \$3,698 and \$4,240)	3,742	4,417
Available-for-sale (June 30, 2010 includes \$580 previously securitized)	49,834	51,632
Total securities	53,576	56,049
Trading assets	7,393	6,001
Loans	37,147	36,689
Allowance for loan losses	(542)	(503)
Net loans	36,605	36,186
Premises and equipment	1,548	1,602
Accrued interest receivable	524	639
Goodwill	16,106	16,249
Intangible assets	5,354	5,588
Other assets (includes \$1,119 and \$863, at fair value)	17,988	16,737
Assets of discontinued operations	342	2,242
Subtotal assets of operations	222,433	212,224
Assets of consolidated asset management funds, at fair value:		
Trading assets	543	-
Loans	12,070	-
Other assets	647	-
Subtotal assets of consolidated asset management funds	13,260	-
Total assets	\$ 235,693	\$ 212,224
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing (principally domestic offices)	\$ 42,185	\$ 33,477
Interest-bearing deposits in domestic offices	32,994	32,944
Interest-bearing deposits in foreign offices	68,488	68,629
Total deposits	143,667	135,050
Federal funds purchased and securities sold under repurchase agreements	2,712	3,348
Trading liabilities	8,323	6,396
Payables to customers and broker-dealers	10,200	10,721
Commercial paper	7	12
Other borrowed funds	2,013	477
Accrued taxes and other expenses	4,645	4,484
Other liabilities (including allowance for lending related commitments of \$103 and \$125, also includes \$281 and \$610, at fair value)	3,995	3,891
Long-term debt (June 30, 2010 includes \$276 at fair value)	16,754	17,234
Liabilities of discontinued operations	-	1,608
Subtotal liabilities of operations	192,316	183,221
Liabilities and obligations of consolidated asset management funds, at fair value	12,272	-
Total liabilities	204,588	183,221
<b>Equity</b>		
Common stock-par value \$0.01 per common share; authorized 3,500,000,000 common shares; issued 1,215,948,532 and 1,208,861,641 common shares	12	12
Additional paid-in capital	22,073	21,917
Retained earnings	9,875	8,912
Accumulated other comprehensive loss, net of tax	(1,509)	(1,835)
Less: Treasury stock of 1,906,851 and 1,026,927 common shares, at cost	(55)	(29)
Total The Bank of New York Mellon Corporation shareholders' equity	30,396	28,977
Noncontrolling interests	43	26
Noncontrolling interests of consolidated asset management funds	666	-
Total equity	31,105	29,003

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

Total liabilities and equity

\$ 235,693 \$ 212,224

*See accompanying Notes to Consolidated Financial Statements.*

60 BNY Mellon

**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Statement of Cash Flows (unaudited)**

<i>(in millions)</i>	Six months ended June 30	
	2010	2009
<b>Operating activities</b>		
Net income	\$ 1,276	\$ 780
Net income (loss) attributable to noncontrolling interests, net of tax	(59)	1
Loss from discontinued operations, net of tax	(52)	(132)
Income from continuing operations attributable to The Bank of New York Mellon Corporation	1,269	913
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for credit losses	55	120
Depreciation and amortization	257	327
Deferred tax benefit	(39)	(452)
Securities (gains) losses and venture capital income	(31)	580
Change in trading activities	(1,785)	(594)
Change in accruals and other, net	132	(485)
Net effect of discontinued operations	-	(96)
Net cash provided by (used for) operating activities	(142)	313
<b>Investing activities</b>		
Change in interest-bearing deposits with banks	(720)	2,586
Change in interest-bearing deposits with Federal Reserve and other central banks	(14,217)	36,772
Change in margin loans	(944)	54
Purchases of securities held-to-maturity	(13)	(108)
Paydowns of securities held-to-maturity	135	346
Maturities of securities held-to-maturity	124	196
Purchases of securities available-for-sale	(5,460)	(15,428)
Sales of securities available-for-sale	3,495	184
Paydowns of securities available-for-sale	3,496	3,284
Maturities of securities available-for-sale	1,124	931
Net principal received from loans to customers	15	3,130
Sales of loans and other real estate	366	485
Change in federal funds sold and securities purchased under resale agreements	(918)	(1,697)
Change in seed capital investments	(193)	6
Purchases of premises and equipment/capitalized software	(82)	(187)
Acquisitions, net cash	(115)	(11)
Dispositions, net cash	133	-
Proceeds from the sale of premises and equipment	6	2
Other, net	(577)	116
Net effect of discontinued operations	-	183
Net cash provided by (used for) investing activities	(14,345)	30,844
<b>Financing activities</b>		
Change in deposits	14,420	(28,529)
Change in federal funds purchased and securities sold under repurchase agreements	(636)	958
Change in payables to customers and broker-dealers	(521)	(782)
Change in other funds borrowed	2,411	(3,306)
Change in commercial paper	(5)	134
Net proceeds from the issuance of long-term debt	650	2,100
Repayments of long-term debt	(1,764)	(540)
Proceeds from the exercise of stock options	23	4
Issuance of common stock	10	1,360
Treasury stock acquired	(24)	(23)
Common cash dividends paid	(219)	(378)
Preferred dividends paid	-	(74)
Repurchase of Series B preferred stock	-	(3,000)
Net effect of discontinued operations	-	(119)
Net cash provided by (used for) financing activities	14,345	(32,195)
Effect of exchange rate changes on cash	(21)	(60)
<b>Change in cash and due from banks:</b>		
Change in cash and due from banks	(163)	(1,098)
Cash and due from banks at beginning of period	3,732	4,881
Cash and due from banks at end of period	\$ 3,569	\$ 3,783

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

### Supplemental disclosures

Interest paid	\$	229	\$	407
Income taxes paid		246		2,136
Income taxes refunded		188		43

*See accompanying Notes to Consolidated Financial Statements.*

BNY Mellon 61

**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Statement of Changes in Equity (unaudited)**

Six months ended June 30, 2010

	The Bank of New York Mellon Corporation shareholders							
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Treasury stock	Non- controlling interest	Non- controlling interest of consolidated asset manage- ment funds	Total equity
<i>(in millions)</i>								
Balance at Dec. 31, 2009	\$ 12	\$ 21,917	\$ 8,912	\$ (1,835)	\$ (29)	\$ 26	\$ -	\$ 29,003
Adjustment for the cumulative effect of applying ASC 810, net of tax	-	-	52	24	-	-	-	76
Adjustment for the cumulative effect of applying ASC 825, net of tax	-	-	(73)	-	-	-	-	(73)
Adjusted balance at Jan. 1, 2010	12	21,917	8,891	(1,811)	(29)	26	-	29,006
Purchase of subsidiary shares from noncontrolling interest	-	(18)	-	-	-	(6)	-	(24)
Distributions paid to noncontrolling interests	-	-	-	-	-	(4)	(38)	(42)
Other net changes in noncontrolling interests	-	-	-	-	-	26	-	26
Consolidation of asset management funds	-	-	-	-	-	-	745	745
Deconsolidation of asset management funds	-	-	-	-	-	-	(7)	(7)
Comprehensive income:								
Net income	-	-	1,217	-	-	2	57	1,276
Other comprehensive income:								
Unrealized gain (loss) on securities available for sale	-	-	-	737	-	-	-	737
Employee benefit plans:								
Pensions	-	-	-	21	-	-	-	21
Other post-retirement benefits	-	-	-	2	-	-	-	2
Foreign currency translation adjustments	-	-	-	(471)	-	(1)	(91)	(563)
Net unrealized gain (loss) on cash flow hedges	-	-	-	12	-	-	-	12
Reclassification adjustment/other (a)	-	-	(14)	1	-	-	-	(13)
Total comprehensive income	-	-	1,203	302	-	1	(34)	1,472 (b)
Dividends on common stock at \$0.18 per share	-	-	(219)	-	-	-	-	(219)
Repurchase of common stock	-	-	-	-	(24)	-	-	(24)
Common stock issued under employee benefit plans	-	18	-	-	-	-	-	18
Common stock issued under direct stock purchase and dividend reinvestment plan	-	8	-	-	-	-	-	8
Stock awards and options exercised	-	148	-	-	(2)	-	-	146
<b>Balance at June 30, 2010</b>	<b>\$ 12</b>	<b>\$ 22,073</b>	<b>\$ 9,875</b>	<b>\$ (1,509)</b>	<b>\$ (55)</b>	<b>\$ 43</b>	<b>\$ 666</b>	<b>\$ 31,105</b>

(a) Includes \$(12) million (after-tax) related to OTTI, and a \$14 million reclassification to retained earnings from other comprehensive income.

(b) Comprehensive income attributable to The Bank of New York Mellon Corporation shareholders for the six months ended June 30, 2010 and 2009 was \$1,505 million and \$1,275 million, respectively.

See accompanying Notes to Consolidated Financial Statements.

---

**Table of Contents**

**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.

*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 significant estimates are items such as the allowance for loan losses and lending-related commitments, goodwill and intangible assets, pension accounting, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending-related commitments as well as increased pension and post-retirement expense.

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 interim periods have been made. Certain other immaterial reclassifications in addition to discontinued operations (see Note 4 of the Notes to Consolidated Financial Statements) have been made to prior periods to place them on a basis comparable with current period presentation.

**Note 2 Accounting changes and new accounting guidance**

*ASU 2009-16 - Accounting for Transfers of Financial Assets*

In December 2009, the FASB issued ASU 2009-16 Accounting for Transfers of Financial Assets. This formally codified SFAS No. 166, Accounting

for Transfers of Financial Assets, an Amendment to FASB Statement No. 140. This ASU removed (1) the concept of a qualifying special purpose entity ( QSPE ) from SFAS No. 140 (ASC 860 *Transfers and Servicing*) and (2) the exceptions from applying FASB Interpretation No. ( FIN ) 46 (R) (ASC 810 *Consolidation*) to QSPEs. This ASU revised the de-recognition requirements for transfers of financial assets and the initial measurement of beneficial interests that are received as proceeds by a transferor in connection with transfers of financial assets. This ASU also required additional disclosure about transfers of financial assets and a transferor's continuing involvement with such transferred financial assets. This ASU was effective Jan. 1, 2010, at which time any QSPEs were evaluated for consolidation in accordance with SFAS No. 167, which amended FIN 46 (R) (ASC 810). Accordingly, the Grantor Trust into which we securitized certain of our investment securities no longer qualifies as a QSPE, resulting in \$97 million being included in both our investment securities portfolio and liabilities at June 30, 2010.

*ASU 2009-17 - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*

In December 2009, the FASB issued ASU 2009-17 Improvements to Financial Reporting by Entities Involved with Variable Interest Entities. This formally codified SFAS No. 167, Amendments to FASB Interpretation No. 46 (R). This ASU amended FIN 46 (R) (ASC 810) to require ongoing assessments to determine whether an entity is a variable interest entity ( VIE ) and whether an enterprise is the primary beneficiary of a VIE. This ASU also amended the guidance for determining which enterprise, if any, is the primary beneficiary of a VIE by requiring the enterprise to initially perform a qualitative analysis to determine if the enterprise's variable interest or interests give it a controlling financial interest. Consolidation is based on a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. If a company has control and the right to receive benefits or the obligation to absorb losses which could potentially be significant to the VIE, then consolidation is required. This ASU was effective Jan. 1, 2010 and primarily impacts our asset management businesses.

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

This ASU does not change the economic risk related to these businesses and therefore, BNY Mellon s

BNY Mellon 63



**Table of Contents****Notes to Consolidated Financial Statements** (continued)

computation of economic capital required by our businesses will not change.

This statement also requires additional disclosures about an enterprise's involvement in a VIE, including the requirement for sponsors of a VIE to disclose information even if they do not hold a significant variable interest in the VIE. At June 30, 2010, our consolidated balance sheet included \$13.840 billion of assets of VIEs that would not have been included in our consolidated balance sheet prior to effectiveness of the statement. Those assets included seed capital investments in mutual funds sponsored by our affiliates and securitizations, including residential mortgage-backed securities held by a grantor trust established in December 2009 when we restructured our investment securities portfolio. Adoption of this new statement accounted for an increase in consolidated total assets on our balance sheet at June 30, 2010 of \$13.402 billion, or approximately 6% from year end.

In February 2010, the FASB issued ASU 2010-10, *Amendments for Certain Investment Funds* which deferred the requirements of ASU 2009-17 for asset managers' interests in entities that apply the specialized accounting guidance for investment companies or that have the attributes of investment companies and asset managers' interests in money market funds. This amendment was effective Jan. 1, 2010.

In January 2010, the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of Thrift Supervision issued a final rule requiring banks to hold capital for assets consolidated under SFAS No. 166 (ASU 2009-16) and SFAS No. 167 (ASU 2009-17). The final rule allows for (1) opting for a two-quarter delay through June 30, 2010, of recognition of the effect on risk-weighted assets and allowance for loan losses includable in Tier 2 capital that results from implementation of this standard and (2) a phase-in of 50% of those effects for the quarters ending Sept. 30, 2010 and Dec. 31, 2010 and will be fully phased-in for the quarter ending March 31, 2011. BNY Mellon elected to defer the implementation of SFAS No. 167 for capital purposes. At June 30, 2010, had we fully phased-in the implementation of SFAS No. 167, our Tier 1 capital ratio would have been negatively impacted by approximately 136 basis points, assuming we had taken no mitigating actions.

As a result of adopting this guidance, we recorded a cumulative effect adjustment of \$76 million to retained earnings in the first quarter of 2010. Also, we elected the fair value option for these assets and liabilities, and as a result, recorded a \$73 million charge to retained earnings in the first quarter of 2010.

*ASU 2010-6 Improving Disclosures About Fair Value Measurements*

In January 2010, the FASB issued ASU 2010-6, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 to clarify existing requirements regarding disclosures of inputs and valuation techniques and levels of disaggregation. This ASU also requires the following new disclosures: (1) significant transfers in and out of Levels 1 and 2 and the reasons that such transfers were made; and (2) additional disclosures in the reconciliation of Level 3 activity, including information on a gross basis for purchases, sales, issuances and settlements. This ASU is required in interim and annual financial statements and was effective March 31, 2010. See Note 15 of the Notes to Consolidated Financial Statements for these disclosures. Additional disclosures about Level 3 purchases, sales, issuances and settlements in the rollforward activity for fair value measurements will be effective March 31, 2011.

**Note 3 Acquisitions and dispositions**

We acquired a Canadian trust company for C\$29 million in the second quarter of 2010. On Jan. 15, 2010, we completed the sale of MUNB. See Note 4 of the Notes to Consolidated Financial Statements for additional information.

We sometimes structure our acquisitions with both an initial payment and later contingent payments tied to post-closing revenue or income growth. For acquisitions completed prior to Jan. 1, 2009, we record the fair value of contingent payments as an additional cost of the entity acquired in the period that the payment becomes probable. For acquisitions completed after Jan. 1, 2009, subsequent changes in the fair value of a contingent consideration liability will be recorded through the income statement. Contingent payments totaled \$88 million in the second quarter of 2010.

At June 30, 2010, we were potentially obligated to pay additional consideration which, using reasonable assumptions for the performance of the acquired



**Table of Contents****Notes to Consolidated Financial Statements** (continued)

companies and joint ventures based on contractual agreements, could range from approximately \$12 million to \$25 million over the next four years.

*Acquisition in 2009*

In November 2009, we acquired Insight Investment Management Limited ( Insight ) for £235 million (\$377 million of cash and stock). Insight specializes in liability-driven investment solutions, active fixed income and alternative investments. Insight had \$138 billion in assets under management at acquisition. Goodwill related to this acquisition is non-tax deductible and totaled \$202 million. Intangible assets (primarily customer contracts) related to the transaction, with a life up to 11 years, totaled \$111 million. The impact of this acquisition is not expected to be material to earnings per share in 2010.

**Note 4 Discontinued operations**

On Jan. 15, 2010, BNY Mellon sold MUNB, its national bank subsidiary located in Florida. We have applied discontinued operations accounting to this business. The income statements for all periods in this Form 10-Q are presented on a continuing operations basis. This business, which was previously reported in the Other segment, no longer fit our strategic focus on our asset management and securities servicing businesses. In the second quarter of 2010, we recorded an after-tax loss on discontinued operations of \$10 million primarily reflecting the lower of cost or market write-downs on the retained loans held for sale.

Summarized financial information for discontinued operations is as follows:

<b>Discontinued operations</b> <i>(in millions)</i>	Quarter ended			Six months ended	
	<b>June 30,</b> <b>2010</b>	March 31, 2010	June 30, 2009	<b>June 30,</b> <b>2010</b>	June 30, 2009
Fee and other revenue	\$ -	\$ -	\$ 1	\$ -	\$ 3
Net interest revenue	2	3	16	5	33
Provision for loan losses	-	-	62	-	83
Net interest revenue after provision for loan losses	2	3	(46)	5	(50)
Noninterest expense:					
Staff	-	2	6	2	12
Professional, legal and other purchased services	1	1	1	2	2
Net occupancy	-	-	2	-	3
Other	1	1	5	2	10
Goodwill impairment	-	-	-	-	50
Total noninterest expense	2	4	14	6	77
Loss from operations	-	(1)	(59)	(1)	(124)
Loss on assets held for sale	(16)	(68)	(85)	(84)	(85)
Loss on sale of MUNB	-	(1)	-	(1)	-
Benefit for income taxes	(6)	(28)	(53)	(34)	(77)
Loss from discontinued operations, net of tax	\$ (10)	\$ (42)	\$ (91)	\$ (52)	\$ (132)

**Discontinued operations assets and liabilities**

<i>(in millions)</i>	<b>June 30,</b> <b>2010</b>	Dec 31, 2009
Cash and due from banks	\$ -	\$ 446

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

Securities	-	488
Loans, net of allowance for loan losses	253	1,225
Premises and equipment	-	12
Other assets	89	71
Assets of discontinued operations	\$ 342	\$ 2,242
Deposits:		
Noninterest-bearing	\$ -	\$ 539
Interest-bearing	-	958
Total deposits	-	1,497
Other liabilities	-	111
Liabilities of discontinued operations	\$ -	\$ 1,608

All information in these Financial Statements and Notes reflects continuing operations, unless otherwise noted.

BNY Mellon 65

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 5 Securities**

The following tables present the amortized cost, the gross unrealized gains and losses and the fair value of securities at June 30, 2010 and Dec. 31, 2009.

**Securities at June 30, 2010**

	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
<i>(in millions)</i>				
<b>Available-for-sale:</b>				
U.S. Treasury	\$ 5,850	\$ 102	\$ -	\$ 5,952
U.S. Government agencies	1,133	13	-	1,146
State and political Subdivisions	610	6	54	562
Agency MBS	18,025	530	10	18,545
Alt-A RMBS	529	21	52	498
Prime RMBS	1,515	10	121	1,404
Subprime RMBS	729	-	253	476
Other RMBS	1,649	1	289	1,361
Commercial MBS	2,753	85	132	2,706
Asset-backed CLOs	242	-	17	225
Other asset-backed securities	584	9	5	588
Other debt securities	10,168	184	26	10,326 <sup>(a)</sup>
Equity securities	1,385	8	1	1,392
Grantor Trust:				
Alt-A RMBS	2,355	210	29	2,536
Prime RMBS	1,831	150	12	1,969
Subprime RMBS	127	21	-	148
Total securities available-for-sale	49,485	1,350	1,001	49,834
<b>Held-to-maturity:</b>				
State and political subdivisions	139	3	-	142
Agency MBS	455	39	-	494
Alt-A RMBS	252	3	24	231
Prime RMBS	170	-	6	164
Subprime RMBS	28	-	3	25
Other RMBS	2,660	55	108	2,607
Commercial MBS	32	-	3	29
Other debt securities	1	-	-	1
Other securities	5	-	-	5
Total securities held-to-maturity	3,742	100	144	3,698
Total securities	\$ 53,227	\$ 1,450	\$ 1,145	\$ 53,532

(a) Includes \$9.7 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.

**Securities at Dec. 31, 2009**

	Amortized cost	Gross unrealized		Fair value
		Gains	Losses	
<i>(in millions)</i>				
<b>Available-for-sale:</b>				
U.S. Treasury	\$ 6,358	\$ 30	\$ 10	\$ 6,378
U.S. Government agencies	1,235	25	-	1,260
State and political subdivisions	538	6	24	520
Agency MBS	18,247	303	95	18,455
Alt-A RMBS	588	12	63	537
Prime RMBS	1,743	3	234	1,512

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

Subprime RMBS	758	-	311	447
Other RMBS	2,199	1	430	1,770
Commercial MBS	2,762	31	203	2,590
Asset-backed CLOs	424	15	50	389
Other asset-backed securities	869	5	38	836
Other debt securities	11,419	86	48	11,457(a)
Equity securities	1,314	8	1	1,321
Grantor Trust Class B certificates (b)	4,049	111	-	4,160
Total securities available-for-sale	52,503	636	1,507	51,632
<b>Held-to-maturity:</b>				
State and political subdivisions	150	3	-	153
Agency MBS	531	30	-	561
Alt-A RMBS	304	-	62	242
Prime RMBS	189	-	17	172
Subprime RMBS	30	-	7	23
Other RMBS	3,195	39	162	3,072
Commercial MBS	11	-	1	10
Other debt securities	3	-	-	3
Other securities	4	-	-	4
Total securities held-to-maturity	4,417	72	249	4,240
Total securities	\$ 56,920	\$ 708	\$ 1,756	\$ 55,872

(a) Includes \$10.8 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.

(b) The Grantor Trust contains Alt-A, prime and subprime RMBS.

The amortized cost and fair value of securities at June 30, 2010, by contractual maturity, are as follows:

**Securities by contractual maturity at June 30, 2010**

(in millions)	Available-for-sale		Held-to-maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	\$ 4,568	\$ 4,601	\$ 3	\$ 3
Due after one year through five years	11,964	12,211	2	2
Due after five years through ten years	493	510	22	23
Due after ten years	736	664	116	118
Mortgage-backed securities	29,513	29,643	3,597	3,550
Asset-backed securities	826	813	-	-
Equity	1,385	1,392	2	2
Total securities	\$ 49,485	\$ 49,834	\$ 3,742	\$ 3,698

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Net securities gains (losses)***(in millions)*

	2Q10	1Q10	2Q09	YTD10	YTD09
Realized gross gains	\$ 19	\$ 14	\$ 40	\$ 33	\$ 43
Realized gross losses	(5)	-	(6)	(5)	(6)
Recognized gross impairments	(1)	(7)	(290)	(8)	(588)
Total net securities gains (losses)	\$ 13	\$ 7	\$ (256)	\$ 20	\$ (551)

*Temporarily impaired securities*

At June 30, 2010, substantially all of the unrealized losses on the investment securities portfolio were attributable to credit spreads widening since purchase and interest rate movements. We do not intend to sell these securities and it is not more likely than not that we will have to sell.

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 greater than 12 months.

<b>Temporarily impaired securities</b>	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
<i>(in millions)</i>						
<b>June 30, 2010:</b>						
<b>Available-for-sale:</b>						
U.S. Treasury	\$ 101	\$ -	\$ 1	\$ -	\$ 102	\$ -
State and political subdivisions	144	35	135	19	279	54
Agency MBS	696	5	522	5	1,218	10
Alt-A RMBS	100	8	107	44	207	52
Prime RMBS	74	1	892	120	966	121
Subprime RMBS	3	-	473	253	476	253
Other RMBS	46	-	1,308	289	1,354	289
Commercial MBS	46	2	714	130	760	132
Asset-backed CLOs	-	-	225	17	225	17
Other asset-backed securities	3	2	117	3	120	5
Other debt securities	43	-	93	26	136	26
Equity securities	-	-	11	1	11	1
Grantor Trust Alt-A RMBS	731	29	-	-	731	29
Grantor Trust Prime RMBS	391	12	-	-	391	12
Total securities available-for-sale	\$ 2,378	\$ 94	\$ 4,598	\$ 907	\$ 6,976	\$ 1,001
<b>Held-to-maturity:</b>						
State and political subdivisions	\$ 10	\$ -	\$ 2	\$ -	\$ 12	\$ -
Alt-A RMBS	34	1	155	23	189	24
Prime RMBS	-	-	148	6	148	6
Subprime RMBS	-	-	25	3	25	3
Other RMBS	406	6	788	102	1,194	108
Commercial MBS	21	1	7	2	28	3
Total securities held-to-maturity	\$ 471	\$ 8	\$ 1,125	\$ 136	\$ 1,596	\$ 144
Total temporarily impaired securities	\$ 2,849	\$ 102	\$ 5,723	\$ 1,043	\$ 8,572	\$ 1,145 <sup>(a)</sup>

*(a) Includes other-than-temporarily impaired securities in which portions of the other-than-temporary impairment loss remains in OCI.*





**Table of Contents****Notes to Consolidated Financial Statements** (continued)

Temporarily impaired securities <i>(in millions)</i>	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
<b>Dec. 31, 2009:</b>						
<b>Available-for-sale:</b>						
U.S. Treasury	\$ 1,226	\$ 9	\$ 176	\$ 1	\$ 1,402	\$ 10
State and political subdivisions	50	13	171	11	221	24
Agency MBS	7,297	76	2,061	19	9,358	95
Alt-A RMBS	-	-	311	63	311	63
Prime RMBS	5	1	1,480	233	1,485	234
Subprime RMBS	1	2	446	309	447	311
Other RMBS	-	-	1,764	430	1,764	430
Commercial MBS	-	-	1,290	203	1,290	203
Asset-backed CLOs	18	6	274	44	292	50
Other asset-backed securities	-	-	706	38	706	38
Other debt securities	33	-	8,804	48	8,837	48
Equity securities	16	-	3	1	19	1
Total securities available-for-sale	\$ 8,646	\$ 107	\$ 17,486	\$ 1,400	\$ 26,132	\$ 1,507
<b>Held-to-maturity:</b>						
Alt-A RMBS	\$ 2	\$ 1	\$ 221	\$ 61	\$ 223	\$ 62
Prime RMBS	-	-	172	17	172	17
Subprime RMBS	-	-	23	7	23	7
Other RMBS	-	-	3,072	162	3,072	162
Commercial MBS	-	-	10	1	10	1
Total securities held-to-maturity	\$ 2	\$ 1	\$ 3,498	\$ 248	\$ 3,500	\$ 249
Total temporarily impaired securities	\$ 8,648	\$ 108	\$ 20,984	\$ 1,648	\$ 29,632	\$ 1,756 <sup>(a)</sup>

(a) Includes other-than-temporarily impaired securities in which portions of the other-than-temporary impairment loss remains in OCI.

*Other-than-temporary impairment*

For certain debt securities which have no debt rating at acquisition and are beneficial interests in securitized financial assets under ASC 325, OTTI occurs when we determine that there has been an adverse change in cash flows and the present value of those remaining cash flows is less than the present value of the remaining cash flows estimated at the security's acquisition date (or last estimated cash flow revision date).

We routinely conduct periodic reviews to identify and evaluate each investment security to determine whether OTTI has occurred. Economic models are used to determine whether an OTTI has occurred on these securities. While all securities are considered, the securities primarily impacted by OTTI testing are non-agency RMBS. For each non-agency RMBS in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an OTTI has occurred. Various inputs to the economic models are used to determine if an unrealized loss on non-agency RMBS is other-than-temporary. The most significant inputs are:

Default rate – the number of mortgage loans expected to go into default over the life of the transaction, which is driven by the roll rate of loans in each performance bucket that will ultimately migrate to default; and

Severity – the loss expected to be realized when a loan defaults

To determine if the unrealized loss for non-agency RMBS is other-than-temporary, we project total estimated defaults of the underlying assets (mortgages) and multiply that calculated amount by an estimate of realizable value upon sale in the marketplace (severity) in order to determine the projected collateral loss. We also evaluate the current credit enhancement underlying the bond to determine the impact on cash flows. If we determine that a given RMBS position will be subject to a write-down or loss, we record the expected credit loss as a charge to earnings.

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

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

The table below shows the projected weighted-average default rates and loss severities for the 2007,

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

2006 and 2005 non-agency RMBS and the Grantor Trust portfolios at June 30, 2010 and Dec. 31, 2009.

**Projected weighted-average default rates and severities**

	June 30, 2010		Dec. 31, 2009	
	Default Rate	Severity	Default Rate	Severity
Alt-A	41%	49%	43%	50%
Subprime	69%	65%	74%	69%
Prime	20%	42%	19%	44%

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

Net securities gains (losses) (in millions)	Year-to-date				
	2Q10	1Q10	2Q09	2010	2009
Alt-A RMBS	\$ (6)	\$ (7)	\$ (114)	\$ (13)	\$ (239)
Prime RMBS	-	-	(9)	-	(12)
Home equity lines of credit	-	-	(4)	-	(22)
European floating rate notes	-	-	(66)	-	(70)
Credit cards	-	-	(26)	-	(28)
Other	19	14	(37)	33	(180)
Net securities gains (losses)	\$ 13	\$ 7	\$ (256)	\$ 20	\$ (551)

The following table reflects investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. The additions represent the first time a debt security was credit impaired or when subsequent credit

impairments have occurred. The deductions represent credit losses on securities that have been sold, are required to be sold or it is our intention to sell.

**Debt securities credit loss roll forward**

(in millions)	2Q10	2Q09
Beginning balance as of March 31	\$ 208	\$ 735
Add: Initial OTTI credit losses	-	185
Subsequent OTTI credit losses	1	105
Less: Realized losses for securities sold / consolidated	-	-
Ending balance as of June 30	\$ 209	\$ 1,025

**Debt securities credit loss roll forward**

(in millions)	Year-to-date	
	2010	2009
Beginning balance as of Dec. 31	\$ 271	\$ 535
Add: Initial OTTI credit losses	6	343
Subsequent OTTI credit losses	2	147
Less: Realized losses for securities sold / consolidated	70	-
Ending balance as of June 30	\$ 209	\$ 1,025

**Note 6 Goodwill and intangible assets***Goodwill*

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

The level of goodwill decreased in 2010 primarily due to foreign exchange translation on non-U.S. dollar denominated goodwill partially offset by contingent payments related to previous acquisitions. Goodwill impairment testing is performed at least annually at the business segment level. The table below provides a breakdown of goodwill by business segment.

### Goodwill by segment

<i>(in millions)</i>	Asset Management	Wealth Management	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Other	Total
Balance at Dec. 31, 2009	\$ 7,609	\$ 1,703	\$ 3,397	\$ 2,488	\$ 918	\$ 127	\$ 7	\$ 16,249
Acquisitions	-	-	-	13	-	-	-	13
Foreign exchange translation	(121)	-	(86)	(7)	(12)	-	(1)	(227)
Other <i>(a)</i>	86	(2)	(5)	(2)	-	-	(6)	71
<b>Balance at June 30, 2010</b>	<b>\$ 7,574</b>	<b>\$ 1,701</b>	<b>\$ 3,306</b>	<b>\$ 2,492</b>	<b>\$ 906</b>	<b>\$ 127</b>	<b>\$ -</b>	<b>\$ 16,106</b>

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

### Goodwill by segment

<i>(in millions)</i>	Asset Management	Wealth Management	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Other	Total
Balance at Dec. 31, 2008	\$ 7,218	\$ 1,694	\$ 3,360	\$ 2,463	\$ 902	\$ 123	\$ 138	\$ 15,898
Foreign exchange translation	184	-	32	7	18	-	-	241
Transferred to discontinued operations	-	-	-	-	-	-	(128) <i>(a)</i>	(128)
Other <i>(b)</i>	15	-	-	14	-	-	-	29
Balance at June 30, 2009	\$ 7,417	\$ 1,694	\$ 3,392	\$ 2,484	\$ 920	\$ 123	\$ 10	\$ 16,040

*(a) Includes \$50 million of goodwill impairment recorded in the first quarter of 2009.*

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

**Table of Contents****Notes to Consolidated Financial Statements** (continued)*Intangible assets*

Intangible assets not subject to amortization are tested annually for impairment or more often if events or circumstances indicate they may be impaired. The decrease in intangible assets at June 30, 2010 compared with Dec. 31, 2009 resulted from intangible amortization and foreign exchange translation on non-U.S. dollar denominated

intangible assets. Intangible amortization expense was \$98 million in the second quarter of 2010, \$108 million in the second quarter of 2009 and \$97 million in the first quarter of 2010. The table below provides a breakdown of intangible assets by business segment.

**Intangible assets net carrying amount by segment**

<i>(in millions)</i>	Asset Management	Wealth Management	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Other	Total
Balance at Dec. 31, 2009	\$ 2,530	\$ 295	\$ 281	\$ 753	\$ 674	\$ 203	\$ 852	\$ 5,588
Acquisitions	-	-	-	13	-	-	-	13
Amortization	(100)	(18)	(11)	(41)	(13)	(11)	(1)	(195)
Foreign exchange translation	(36)	-	(7)	(3)	(1)	(1)	-	(48)
Other (a)	-	-	(4)	-	-	-	-	(4)
<b>Balance at June 30, 2010</b>	<b>\$ 2,394</b>	<b>\$ 277</b>	<b>\$ 259</b>	<b>\$ 722</b>	<b>\$ 660</b>	<b>\$ 191</b>	<b>\$ 851</b>	<b>\$ 5,354</b>

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

**Intangible assets net carrying amount by segment**

<i>(in millions)</i>	Asset Management	Wealth Management	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Other	Total
Balance at Dec. 31, 2008	\$ 2,595	\$ 340	\$ 302	\$ 834	\$ 699	\$ 229	\$ 857	\$ 5,856
Amortization	(110)	(22)	(16)	(41)	(14)	(13)	1	(215)
Foreign exchange translation	45	-	-	1	2	-	-	48
Transfer to discontinued operations	-	-	-	-	-	-	(4)	(4)
Other (a)	-	-	6	(14)	-	-	-	(8)
Balance at June 30, 2009	\$ 2,530	\$ 318	\$ 292	\$ 780	\$ 687	\$ 216	\$ 854	\$ 5,677

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

**Intangible assets**

<i>(in millions)</i>	June 30, 2010				Dec. 31, 2009
	Gross carrying amount	Accumulated amortization	Net carrying amount	Remaining weighted-average amortization period	
Subject to amortization:					
Customer relationships-Asset and Wealth Management	\$ 2,042	\$ (841)	\$ 1,201	12 yrs.	\$ 1,336
Customer contracts-Institutional services	2,028	(635)	1,393	14	1,478
Deposit premiums	49	(43)	6	2	8
Other	97	(35)	62	7	68

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

Total subject to amortization	\$ 4,216	\$ (1,554)	\$ 2,662	13 yrs.	\$ 2,890
Not subject to amortization: (a)					
Trade name	\$ 1,373	N/A	\$ 1,373	N/A	\$ 1,368
Customer relationships	1,309	N/A	1,309	N/A	1,320
Other	10	N/A	10	N/A	10
Total not subject to amortization	\$ 2,692	N/A	\$ 2,692	N/A	\$ 2,698
Total intangible assets	\$ 6,908	\$ (1,554)	\$ 5,354	N/A	\$ 5,588

(a) Intangible assets not subject to amortization have an indefinite life.

N/A Not applicable

70 BNY Mellon

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

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

For the year ended

Dec. 31,	Estimated amortization expense ( <i>in millions</i> )
2010	\$ 390
2011	363
2012	339
2013	293
2014	261

**Note 7 Allowance for credit losses**

The allowance for credit losses is maintained at a level that, in management's judgment, is adequate to absorb probable losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the credit portfolio at the balance sheet date.

We conduct a quarterly portfolio review to determine the adequacy of our allowance for credit losses. Following this review, senior management analyzes the results and determines the allowance for credit losses. The Risk Committee of our Board of Directors reviews the allowance as of the end of each quarter.

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

**For the quarter ended****June 30, 2010**

( <i>in millions</i> )	Allowance for loan losses	Allowance for lending- related commitments	Allowance for credit losses
Balance at March 31, 2010	\$ 520	\$ 118	\$ 638
Charge-offs:			
Commercial	(1)	-	(1)
Wealth Management	(1)	-	(1)
Financial institutions	(1)	-	(1)
Other residential mortgages	(10)	-	(10)
Commercial real estate	(1)	-	(1)
Total charge-offs	(14)	-	(14)
Recoveries Commercial	1	-	1
Net charge-offs	(13)	-	(13)
Provision	35	(15)	20
<b>Balance at June 30, 2010</b>	<b>\$ 542</b>	<b>\$ 103</b>	<b>\$ 645</b>

**For the quarter ended****June 30, 2009**

Allowance for loan losses	Allowance for lending- related commitments	Allowance for credit losses
---------------------------------	--	-----------------------------------

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

(in millions)

Balance at March 31, 2009	\$ 470	\$ 89	\$ 559
Transferred to discontinued operations	(38)	(2)	(40)
Charge-offs:			
Commercial	(25)	-	(25)
Commercial real estate	(13)	-	(13)
Other residential mortgages	(16)	-	(16)
Total charge-offs	(54)	-	(54)
Recoveries	-	-	-
Net charge-offs	(54)	-	(54)
Provision	56	5	61
<b>Balance at June 30, 2009</b>	<b>\$ 434</b>	<b>\$ 92</b>	<b>\$ 526</b>

For the six months ended

June 30, 2010

(in millions)	Allowance for loan losses	Allowance for lending- related commitments	Allowance for credit losses
Balance at Dec. 31, 2009	\$ 503	\$ 125	\$ 628
Charge-offs:			
Commercial	(1)	-	(1)
Wealth Management	(1)	-	(1)
Financial institutions	(21)	-	(21)
Other residential mortgages	(22)	-	(22)
Commercial real estate	(6)	-	(6)
Total charge-offs	(51)	-	(51)
Recoveries Commercial	13	-	13
Net charge-offs	(38)	-	(38)
Provision	77	(22)	55
<b>Balance at June 30, 2010</b>	<b>\$ 542</b>	<b>\$ 103</b>	<b>\$ 645</b>

For the six months ended

June 30, 2009

(in millions)	Allowance for loan losses	Allowance for lending- related commitments	Allowance for credit losses
Balance at Dec. 31, 2008	\$ 415	\$ 114	\$ 529
Transferred to discontinued operations	(17)	(2)	(19)
Charge-offs:			
Commercial	(37)	-	(37)
Financial institutions	(10)	-	(10)
Commercial real estate	(30)	-	(30)
Other residential mortgages	(28)	-	(28)
Total charge-offs	(105)	-	(105)
Recoveries Leasing	1	-	1
Net charge-offs	(104)	-	(104)
Provision	140	(20)	120
<b>Balance at June 30, 2009</b>	<b>\$ 434</b>	<b>\$ 92</b>	<b>\$ 526</b>

BNY Mellon 71



**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 8 Other assets****Other assets**

<i>(in millions)</i>	<b>June 30, 2010</b>	Dec. 31, 2009
Corporate/bank owned life insurance	<b>\$ 3,946</b>	\$ 3,900
Accounts receivable	<b>3,643</b>	3,528
Equity in joint ventures and other investments (a)	<b>2,734</b>	2,816
Income taxes receivable	<b>1,841</b>	1,867
Fails to deliver	<b>1,541</b>	911
Margin deposits	<b>1,180</b>	459
Prepaid expenses	<b>882</b>	1,089
Prepaid pension assets	<b>742</b>	714
Software	<b>720</b>	595
Due from customers on acceptances	<b>355</b>	502
Other	<b>404</b>	356
Total other assets	<b>\$ 17,988</b>	\$ 16,737

(a) Includes Federal Reserve Bank stock of \$399 million and \$397 million, respectively, at cost.

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

In our Asset Management segment, we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors; as part of that activity we make seed capital investments in certain funds. Seed capital is included in trading assets, securities available-for-sale and other assets depending on the nature of the investment. BNY Mellon also holds private equity investments which consist of investments in private equity funds, mezzanine financings and direct equity investments. Private equity investments are included in other assets. Consistent with our policy to focus on our core activities, we continue to reduce our exposure to private equity investments.

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

**Seed capital and private equity investments valued using NAV June 30, 2010**

<i>(dollar amounts in millions)</i>	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds (a)	\$ 34	\$ -	Monthly-quarterly	3-45 days
Private equity funds (b)	133	38	N/A	N/A
Other funds (c)	56	-	Monthly-yearly	(c)
Total	<b>\$ 223</b>	<b>\$ 38</b>		

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

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

(c) Other funds include various market neutral, leveraged loans, real estate and structured credit funds.



**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 9 Net interest revenue**

<b>Net interest revenue</b> <i>(in millions)</i>	Quarter ended			Six months ended	
	<b>June 30, 2010</b>	March 31, 2010	June 30, 2009	<b>June 30, 2010</b>	June 30, 2009
<b>Interest revenue</b>					
Non-margin loans	\$ 189	\$ 189	\$ 232	\$ 378	\$ 471
Margin loans	22	19	17	41	34
Securities:					
Taxable	478	497	393	975	843
Exempt from federal income taxes	7	6	8	13	16
Total securities	485	503	401	988	859
Other short-term investments - U.S. government-backed commercial paper	-	-	-	-	10
Deposits in banks	127	142	166	269	383
Deposits with the Federal Reserve and other central banks	15	10	7	25	28
Federal funds sold and securities purchased under resale agreements	7	7	9	14	14
Trading assets	17	13	13	30	25
Total interest revenue	862	883	845	1,745	1,824
<b>Interest expense</b>					
Deposits	43	39	40	82	116
Borrowings from Federal Reserve related to ABCP	-	-	-	-	7
Federal funds purchased and securities sold under repurchase agreements	2	1	(3)	3	(3)
Other borrowed funds	21	14	8	35	22
Customer payables	2	1	1	3	3
Long-term debt	72	63	99	135	204
Total interest expense	140	118	145	258	349
Net interest revenue	\$ 722	\$ 765	\$ 700	\$ 1,487	\$ 1,475

**Note 10 Employee benefit plans**

The components of net periodic benefit cost (credit) are as follows:

<b>Net periodic benefit cost (credit)</b> <i>(in millions)</i>	June 30, 2010			Quarter ended March 31, 2010			June 30, 2009		
	Domestic pension benefits	Foreign pension benefits	Health care benefits	Domestic pension benefits	Foreign pension benefits	Health care benefits	Domestic pension benefits	Foreign pension benefits	Health care benefits
Service cost	\$ 22	\$ 7	\$ 1	\$ 23	\$ 7	\$ 1	\$ 24	\$ 4	\$ 1
Interest cost	43	8	4	43	7	3	39	5	4
Expected return on assets	(76)	(9)	(2)	(76)	(9)	(2)	(72)	(7)	(2)
Other	14	2	2	14	3	2	4	1	2
Net periodic benefit cost (credit)	\$ 3	\$ 8	\$ 5	\$ 4	\$ 8	\$ 4	\$ (5)	\$ 3	\$ 5

<b>Net periodic benefit cost (credit)</b> <i>(in millions)</i>	June 30, 2010			Six months ended June 30, 2009		
	Domestic pension benefits	Foreign pension benefits	Health care benefits	Domestic pension benefits	Foreign pension benefits	Health care benefits
Service cost	\$ 45	\$ 14	\$ 2	\$ 48	\$ 9	\$ 2
Interest cost	86	15	7	78	10	8
Expected return on assets	(152)	(18)	(4)	(144)	(14)	(4)

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

Other	28	5	4	7	2	4
Net periodic benefit cost (credit)	\$ 7	\$ 16	\$ 9	\$ (11)	\$ 7	\$ 10

BNY Mellon 73

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 11 Restructuring charges***Global location strategy*

As part of an ongoing effort to improve efficiency and develop a global operating model that provides the highest quality of service to our clients, BNY Mellon continues to execute its global location strategy. This strategy includes migrating positions to our global growth centers and is expected to result in moving or eliminating over 2,300 positions in 2010. In the fourth quarter of 2009, we recorded a pre-tax restructuring charge of \$139 million. We recorded a recovery of \$11 million and a recovery of \$4 million in the second quarter of 2010 and the first six months of 2010, respectively, associated with the global location strategy. The recovery was primarily due to changes made to severance plans in 2009 and attrition.

As of June 30, 2010, we have moved or eliminated approximately 500 positions. Severance payments related to these positions are primarily paid over the salary continuance period in accordance with the separation plan.

*Workforce reduction program*

In the fourth quarter of 2008, we announced that, due to weakness in the global economy, we would reduce our workforce by an estimated 1,800 positions, and as a result, recorded a pre-tax restructuring charge of \$181 million. In the second quarter and first six months of 2010, we recorded a recovery of \$4 million associated with the workforce reduction program.

As of June 30, 2010, we reduced our workforce by approximately 1,700 positions, substantially completing the program. Severance payments related to these positions are primarily paid over the salary continuance period in accordance with the separation plan.

The restructuring charges are recorded as a separate line item on the income statement. The following tables present the activity in the restructuring reserves through June 30, 2010.

**Global location strategy 2009 restructuring charge reserve activity**

<i>(in millions)</i>	Severance	Asset write-offs/other	Total
Original restructuring charge	\$ 102	\$ 37	\$ 139
Additional charges	7	-	7
Utilization	(6)	(24)	(30)
Balance at March 31, 2010	\$ 103	\$ 13	\$ 116
Additional charges/(recovery)	(14)	3	(11)
Utilization	(14)	-	(14)
<b>Balance at June 30, 2010</b>	<b>\$ 75</b>	<b>\$ 16</b>	<b>\$ 91</b>

**Workforce reduction program 2008****restructuring charge reserve activity**

<i>(in millions)</i>	Severance	Stock-based incentive acceleration	Other compensation costs	Other non-personnel expenses	Total
Original restructuring charge	\$ 166	\$ 9	\$ 5	\$ 1	\$ 181

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

Additional charges/(recovery)	4	(2)	(1)	10	11
Utilization	(124)	(7)	(4)	(11)	(146)
Balance at March 31, 2010	\$ 46	\$ -	\$ -	\$ -	\$ 46
Additional charges/(recovery)	(4)	-	-	-	(4)
Utilization	(12)	-	-	-	(12)
<b>Balance at June 30, 2010</b>	<b>\$ 30</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30</b>

The restructuring charges are presented below by business segment. The charges were recorded in the Other segment as these restructurings were corporate initiatives and not directly related to the operating performance of these segments.

**Global location strategy 2009**

**restructuring charge by segment**

<i>(in millions)</i>	2Q10	1Q10	4Q09	Total charges since inception
Asset management	\$ (5)	\$ 5	\$ 32	\$ 32
Asset servicing	3	3	34	40
Issuer services	(6)	-	18	12
Wealth management	1	1	8	10
Treasury services	2	(1)	8	9
Clearing services	(4)	(1)	8	3
Other (including shared services)	(2)	-	31	29
Total restructuring charges	\$ (11)	\$ 7	\$ 139	\$ 135

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Workforce reduction program 2008 restructuring charge by segment**

<i>(in millions)</i>	<b>2Q10</b>	1Q10	4Q09	Total charges since inception
Asset management	\$ (4)	\$ -	\$ 2	\$ 69
Asset servicing	-	-	(3)	30
Issuer services	-	-	(4)	13
Wealth management	-	-	(2)	13
Treasury services	-	-	(1)	10
Clearing services	-	-	-	6
Other (including shared services)	-	-	8	47
Total restructuring charges	\$ (4)	\$ -	\$ -	\$ 188

**Note 12 Income taxes**

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

<b>Effective tax rate</b>	Six months ended	
	<b>June 30, 2010</b>	June 30, 2009
Federal rate	<b>35.0%</b>	35.0%
State and local income taxes, net of federal income tax benefit	<b>4.0</b>	4.4
Credit for low-income housing investments	<b>(1.8)</b>	(2.6)
Tax-exempt income	<b>(2.8)</b>	(3.0)
Foreign operations	<b>(4.5)</b>	(7.5)
Tax settlements	-	(11.0)
Other net	<b>(0.2)</b>	0.7
Effective rate	<b>29.7%</b>	16.0%

Our total uncertain tax positions as of June 30, 2010 were \$345 million compared with \$342 million at March 31, 2010. If these uncertain tax positions were unnecessary, \$345 million would affect the effective tax rate in future periods. We recognize accrued interest and penalties, if applicable, related to income taxes in income tax expense. Included in the balance sheet as of June 30, 2010 is accrued interest of \$88 million. The additional tax expense related to interest for the three and six months ended June 30, 2010 was \$4 million and \$8 million, respectively. It is reasonably possible that the total uncertain tax positions could decrease during the next 12 months by up to \$14 million due to completion of tax authority examinations.

Our federal consolidated income tax returns are closed to examination through 2002. Our New York State and New York City return examinations have been completed through 2004. Our United Kingdom income tax returns are closed through 2007.

**Note 13 Securitizations and variable interest entities***Variable Interest Entities*

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

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

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

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

do not have sufficient equity at risk for the entity to finance its activities without additional financial support,

lack one or more of the following characteristics of a controlling financial interest:

- The power through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance (ASU 2009-17 model).
- The direct or indirect ability to make decisions about the entity's activities through voting rights or similar rights (ASC 810 model).
- The obligation to absorb the expected losses of the entity.
- The right to receive the expected residual returns of the entity.

BNY Mellon's VIEs generally include retail, institutional and alternative investment funds offered to its retail and institutional customers in which it acts as the fund's investment manager. BNY Mellon earns management fees on these funds as well as performance fees in certain funds. It may also provide start-up capital in its new funds. These VIEs are included in the scope of ASU 2010-10 and are reviewed for consolidation based on the guidance in ASC 810.

BNY Mellon 75



**Table of Contents****Notes to Consolidated Financial Statements** (continued)

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

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

BNY Mellon has other VIEs, including securitization trusts, which are no longer considered QSPEs, and special investment vehicles (SIVs), in which BNY Mellon serves as the investment manager and may hold a subordinated interest in the SIVs. In addition, we provide trust and custody services for a fee to entities sponsored by other corporations in which we have no other interest. These VIEs are evaluated under the guidance included in ASU 2009-17.

BNY Mellon has three securitizations, including a grantor trust, and several SIVs, which are assessed for consolidation in accordance with ASU 2009-17.

The primary beneficiary of these VIEs is the entity whose variable interests provide it with a controlling financial interest, which includes the power to direct the activities that most

significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE.

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

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

The following table presents the incremental assets and liabilities included in BNY Mellon's consolidated financial statements, after applying intercompany eliminations, as of June 30, 2010 based on the assessments performed in accordance with ASC 810 and ASU 2009-17. The net assets of any consolidated VIE are solely available to settle the liabilities of the VIE and to settle any investors' ownership liquidation requests, including any seed capital invested in the VIE by BNY Mellon.

**Investments consolidated under ASC 810 at June 30, 2010**

<i>(in millions)</i>	Asset Management funds	Securitizations	Total consolidated investments
Available for sale	\$ -	\$ 580	\$ 580

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

Trading	543	-	543
Loans	12,070	-	12,070
Other assets	647	-	647
Total assets	\$ 13,260	\$ 580	\$ 13,840
Total liabilities	\$ 12,272	\$ 489	\$ 12,761
Noncontrolling interests	\$ 666	\$ -	\$ 666

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

### *Non-consolidated VIEs*

As of June 30, 2010, the following assets related to the VIEs, where BNY Mellon is not the primary beneficiary, are included in its consolidated financial statements.

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Non-consolidated VIEs at June 30, 2010**

<i>(in millions)</i>	Assets	Liabilities	Maximum loss exposure
Available-for-sale	\$ 20	\$ -	\$ 20
Trading	27	-	27
Other	21	-	21
Total	\$ 68	\$ -	\$ 68

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

*Credit supported VIEs*

BNY Mellon voluntarily provided limited credit support to certain money market, collective, commingled and separate account funds (the Funds). Entering into such support agreements represents an event under ASC 810, and is subject to its interpretations.

In analyzing the Funds for which credit support was provided, it was determined that interest rate risk and credit risk are the two main risks that the Funds are designed to create and pass through to their investors. Accordingly, interest rate and credit risk were analyzed to determine if BNY Mellon was the primary beneficiary of each of the Funds.

Credit risk variability quantification includes any potential future credit risk in a Fund and is evaluated using credit ratings and default rates. The full marks on any sensitive securities on watch are also included. Interest rate variability quantification includes the expected Fund yield. Standard deviations are used along with the Fund's market value to quantify the interest rate risk expected in the Fund.

BNY Mellon's analysis of the credit risk variability and interest rate risk variability associated with the supported Funds resulted in BNY Mellon not being the primary beneficiary and therefore the Funds were not consolidated.

The table below shows the financial statement items related to non-consolidated VIEs to which we have provided credit support agreements at June 30, 2010 and Dec. 31, 2009.

**Credit supported VIEs at June 30, 2010**

<i>(in millions)</i>	Assets	Liabilities	Maximum loss exposure
Other	\$ -	\$ -	\$ 26

**Credit supported VIEs at Dec. 31, 2009**

<i>(in millions)</i>	Assets	Liabilities	Maximum loss exposure
Other	\$ -	\$ 14	\$ 40

*Consolidated credit supported VIEs*

Certain funds have been created solely with securities that are subject to credit support agreements where we have agreed to absorb the majority of loss. Accordingly, these funds have been consolidated into BNY Mellon and have affected the following financial statement items at June 30, 2010 and Dec. 31, 2009.

**Consolidated credit supported VIEs at June 30, 2010**

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

<i>(in millions)</i>	Assets	Liabilities	Maximum loss exposure
Available-for-sale	\$ 46	\$ -	\$ 46
Other	-	137	44
<b>Total</b>	<b>\$ 46</b>	<b>\$ 137</b>	<b>\$ 90</b>

**Consolidated credit supported VIEs at Dec. 31, 2009**

<i>(in millions)</i>	Assets	Liabilities	Maximum loss exposure
Available-for-sale	\$ 47	\$ -	\$ 47
Other	-	190	46
<b>Total</b>	<b>\$ 47</b>	<b>\$ 190</b>	<b>\$ 93</b>

The maximum loss exposure shown above for the credit support agreements provided to BNY Mellon's VIEs primarily reflects a complete loss on the Lehman Brothers Holdings Inc. securities for BNY Mellon's clients that accepted our offer of support. As of June 30, 2010, BNY Mellon recorded \$137 million in liabilities related to its VIEs for which credit support agreements were provided.

BNY Mellon 77

## **Table of Contents**

### **Notes to Consolidated Financial Statements** (continued)

#### **Note 14 Fair value of financial instruments**

The carrying amounts of our financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods see Note 1 to the Consolidated Financial Statements contained in BNY Mellon's 2009 Annual Report on Form 10-K. The following disclosure discusses these instruments on a uniform fair value basis. However, active markets do not exist for a significant portion of these instruments, principally loans and commitments. As a result, fair value determinations require significant subjective judgments regarding future cash flows. Other judgments would result in different fair values. Among the assumptions we used are discount rates ranging principally from 0.17% to 6.01% at June 30, 2010 and 0.05% to 6.27% at Dec. 31, 2009. The fair value information supplements the basic financial statements and other traditional financial data presented throughout this report.

Note 15, Fair value measurement presents assets and liabilities measured at fair value by the three level valuation hierarchy established under ASC 820, as well as a roll forward schedule of fair value measurements using significant unobservable inputs.

A summary of the practices used for determining fair value is as follows.

#### *Interest-bearing deposits with banks*

The fair value of interest-bearing deposits with banks is based on discounted cash flows.

#### *Securities, trading activities, and derivatives used for ALM*

The fair value of securities and trading assets and liabilities is based on quoted market prices, dealer quotes, or pricing models. Fair value amounts for derivative instruments, such as options, futures and forward rate contracts, commitments to purchase and sell foreign exchange, and foreign currency swaps, are similarly determined. The fair value of over-the-counter interest rate swaps is the discounted value of projected future cash flows, adjusted for other factors including, but not limited to and if applicable, optionality and implied volatilities, as well as counterparty credit.

#### *Loans and commitments*

For residential mortgage loans, fair value is estimated using discounted cash flow analyses, adjusting where appropriate for prepayment estimates, using interest rates currently being offered for loans with similar terms and maturities to borrowers. To determine the fair value of other types of loans, BNY Mellon uses discounted cash flows using current market rates. The fair value of commitments to extend credit, standby letters of credit, and commercial letters of credit is based upon the cost to settle the commitment.

#### *Other financial assets*

Fair value is assumed to equal carrying value for these assets due to their short maturity.

#### *Deposits, borrowings and long-term debt*

The fair value of noninterest-bearing deposits and payables to customers and broker-dealers is assumed to be their carrying amount. The fair value of interest-bearing deposits, borrowings, and long-term debt is based upon current rates for instruments of the same remaining maturity or quoted market prices for the same or similar issues.



**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Summary of financial instruments**

<i>(in millions)</i>	June 30, 2010		Dec. 31, 2009	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>Assets:</b>				
Interest-bearing deposits with banks	\$ 53,396	\$ 53,433	\$ 56,302	\$ 56,374
Securities	57,869	58,104	60,461	60,544
Trading assets	7,393	7,393	6,001	6,001
Loans and commitments	33,271	33,377	32,673	32,712
Derivatives used for ALM	765	765	422	422
Other financial assets	33,355	33,355	18,793	18,793
Total financial assets	186,049	186,427	\$ 174,652	\$ 174,846
Assets of discontinued operations	342	342	2,242	2,242
Assets of consolidated asset management funds	13,260	13,260	-	-
Non-financial assets	36,042		35,330	
Total assets	\$ 235,693		\$ 212,224	
<b>Liabilities:</b>				
Noninterest-bearing deposits	\$ 42,185	\$ 42,185	\$ 33,477	\$ 33,477
Interest-bearing deposits	101,482	101,460	101,573	101,570
Payables to customers and broker-dealers	10,200	10,200	10,721	10,721
Borrowings	4,885	4,885	3,922	3,922
Long-term debt	16,754	17,416	17,234	17,110
Trading liabilities	8,323	8,323	6,396	6,396
Derivatives used for ALM	33	33	71	71
Total financial liabilities	\$ 183,862	\$ 184,502	\$ 173,394	\$ 173,267
Liabilities of discontinued operations	-	-	1,608	1,608
Liabilities of consolidated asset management funds	12,272	12,272	-	-
Non-financial liabilities	8,454		8,219	
Total liabilities	\$ 204,588		\$ 183,221	

The table below summarizes the carrying amount of the hedged financial instruments and the related notional amount of the hedge and estimated fair value (unrealized gain/(loss)) of the derivatives that were linked to these items:

**Hedged financial instruments**

<i>(in millions)</i>	Carrying amount	Notional amount	Gain	Unrealized (Loss)
<b>At June 30, 2010:</b>				
Loans	\$ 1	\$ 1	\$ -	\$ -
Securities held-for-sale	514	508	-	(13)
Deposits	27	25	2	-
Long-term debt	13,391	12,183	763	(20)
<b>At Dec. 31, 2009:</b>				
Loans	\$ 1	\$ 1	\$ -	\$ -
Securities held-for-sale	216	211	-	(12)
Deposits	26	25	-	(4)
Long-term debt	12,378	11,599	422	(55)

**Note 15 Fair value measurement**

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

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

an asset or liability as of the measurement date and expands the disclosures about instruments measured at fair value. ASC 820 requires consideration of a company's own creditworthiness when valuing liabilities.

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

BNY Mellon 79



---

**Table of Contents****Notes to Consolidated Financial Statements** (continued)*Determination of fair value*

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

Most derivative contracts are valued using internally developed models which are calibrated to observable market data and employ standard market pricing theory for their valuations. An initial risk-neutral valuation is performed on each position assuming time-discounting based on an AA credit curve. Then, to arrive at a fair value that incorporates counterparty credit risk, a credit adjustment is made to these results by discounting each trade's expected exposures to the counterparty using the counterparty's credit spreads, as implied by the credit default swap market. We also adjust expected liabilities to the counterparty using BNY Mellon's own credit spreads, also implied by the credit default swap market. Accordingly, the valuation of our derivative position is sensitive to the current changes in our own credit spreads as well as those of our counterparties.

In certain cases, we may face additional costs to exit large risk positions or recent prices may not be observable for instruments that trade in inactive or less active markets. The costs to exit large risk positions are based on evaluating the negative change in the market during the time it would take for us to bring those positions to normal market levels for those instruments. Upon evaluating the uncertainty in valuing financial instruments subject to liquidity issues, we make an adjustment to their value. The determination of the liquidity adjustment includes the availability of external quotes, the time since the latest available quote and the price volatility of the instrument.

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

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

*Valuation hierarchy*

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

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

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



## **Table of Contents**

### **Notes to Consolidated Financial Statements** (continued)

certain variable and fixed rate agency and non-agency securities, corporate debt securities and derivative contracts.

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

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

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

#### *Loans and unfunded lending-related commitments*

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

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

#### *Securities*

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

If quoted market prices are not available, we estimate fair values using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of

such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain agency and non-agency mortgage-backed securities, commercial mortgage-backed securities and European floating rate notes.

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

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

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

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

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

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

political subdivisions and other debt securities.

At June 30, 2010, approximately 99% of our securities were valued by pricing sources with reasonable levels of price transparency. Less than 1% of our securities were priced based on economic models and non-binding dealer quotes, and are included in Level 3 of the ASC 820 hierarchy.

BNY Mellon 81

---

**Table of Contents****Notes to Consolidated Financial Statements** (continued)*Consolidated collateralized loan obligations*

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

*Derivatives*

We classify exchange-traded derivatives valued using quoted prices in Level 1 of the valuation hierarchy. Examples include exchanged-traded equity and foreign exchange options. Since few other classes of derivative contracts are listed on an exchange, most of our derivative positions are valued using internally developed models that use as their basis readily observable market parameters and we classify them in Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options and credit default swaps. Derivatives valued using models with significant unobservable market parameters and that are traded less actively or in markets that lack two way flow, are classified in Level 3 of the valuation hierarchy. Examples include long-dated interest rate or currency swaps, where swap rates may be unobservable for longer maturities; and certain credit products, where correlation and recovery rates are unobservable. Certain interest rate swaps with counterparties that are highly structured entities require significant judgment and analysis to adjust the value determined by standard pricing models. The fair value of these interest rate swaps compose less than 1% of our derivative financial instruments. Additional disclosures of derivative instruments are provided in Note 17 of Notes to Consolidated Financial Statements.

*Seed capital*

In our Asset Management segment we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors; as part of that activity we make seed capital investments in certain funds. Seed capital is included in trading assets, securities available-for-sale and other assets, depending on the nature of the investment. When applicable, we value seed capital based on the published net asset value

( NAV ) of the fund. We include funds in which ownership interests in the fund are publicly-traded in an active market and institutional funds in which investors trade in and out daily in Level 1 of the valuation hierarchy. We include open-end funds where investors are allowed to sell their ownership interest back to the fund less frequently than daily and where our interest in the fund contains no other rights or obligations in Level 2 of the valuation hierarchy. However, we generally include investments in funds which allow investors to sell their ownership interest back to the fund less frequently than monthly in Level 3, unless actual redemption prices are observable.

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

*Certain interests in securitizations*

For certain interests in securitizations which are classified in securities available-for-sale and other assets, we use discounted cash flow models which generally include assumptions of projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and estimates of payments to third-party investors. When available, we compare our fair value estimates and assumptions to market activity and to the actual results of the securitized portfolio. Changes in these assumptions may significantly impact our estimate of fair value of the interests in securitizations; accordingly, we generally classify them in Level 3 of the valuation hierarchy.

*Private equity investments*

Our Other segment includes holdings of nonpublic private equity investment through funds managed by third party investment managers and, to a lesser extent, direct investment in private equities. Nonpublic private equity investments generally lack quoted market prices, are less liquid

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

and may be long term; accordingly, we must apply significant judgment in determining their fair value. We value private equity investments initially based upon the

82 BNY Mellon

**Table of Contents**

**Notes to Consolidated Financial Statements** (continued)

transaction price which we subsequently adjust to reflect expected exit values as evidenced by financing and sale transactions with third parties or through ongoing reviews by the investment managers.

The investment managers consider a number of factors in changes in valuation including current operating performance and future expectations of the particular investment, industry valuations of comparable public companies, changes in market outlook and the financing environment. Nonpublic private equity investments are included in Level 3 of the valuation hierarchy.

Private equity investments also include publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. These equity

investments are often held in a partnership structure. Publicly held investments are marked-to-market at the quoted public value less adjustments for regulatory or contractual sales restrictions or adjustments to reflect the difficulty in selling a partnership interest.

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

The following tables present the financial instruments carried at fair value at June 30, 2010 and Dec. 31, 2009, by caption on the consolidated balance sheet and by ASC 820 valuation hierarchy (as described above). For the six months ended June 30, 2010, there were no transfers between Level 1 and Level 2.

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

<b>Assets and liabilities measured at fair value on a recurring basis at June 30, 2010</b> (dollar amounts in millions)	Level 1	Level 2	Level 3	Netting (a)	Total carrying value
<b>Available-for-sale securities:</b>					
U.S. Treasury	\$ 5,952	\$ -	\$ -	\$ -	\$ 5,952
U.S. government agencies	-	1,146	-	-	1,146
State and political subdivisions	-	553	9	-	562
Agency RMBS	-	18,545	-	-	18,545
Alt-A RMBS	-	498	-	-	498
Prime RMBS	-	1,404	-	-	1,404
Subprime RMBS	-	476	-	-	476
Other RMBS	-	1,361	-	-	1,361
Commercial MBS	-	2,706	-	-	2,706
Asset-backed CLOs	-	225	-	-	225
Other asset-backed securities	-	588	-	-	588
Equity securities (b)	489	903	-	-	1,392
Other debt securities (b)	94	3,057	49	-	3,200
Sovereign debt	-	7,126	-	-	7,126
Grantor Trust Alt-A RMBS	-	2,536	-	-	2,536
Grantor Trust Prime RMBS	-	1,969	-	-	1,969
Grantor Trust Subprime RMBS	-	148	-	-	148
<b>Total available-for-sale</b>	<b>6,535</b>	<b>43,241</b>	<b>58</b>	<b>-</b>	<b>49,834</b>
<b>Trading assets:</b>					
Debt and equity instruments (c)	1,739	933	20	-	2,692
<b>Derivative assets:</b>					
Interest rate	-	16,841	83	N/A	
Foreign exchange	4,174	155	-	N/A	
Equity	374	331	3	N/A	
Other	-	3	-	N/A	
<b>Total derivative assets</b>	<b>4,548</b>	<b>17,330</b>	<b>86</b>	<b>(17,263) (f)</b>	<b>4,701</b>
<b>Total trading assets</b>	<b>6,287</b>	<b>18,263</b>	<b>106</b>	<b>(17,263)</b>	<b>7,393</b>
Loans	-	15	8	-	23
Other assets (d)	104	906	109	-	1,119
<b>Subtotal assets of operations at fair value</b>	<b>\$ 12,926</b>	<b>\$ 62,425</b>	<b>\$ 281</b>	<b>\$ (17,263)</b>	<b>\$ 58,369</b>
Percent of assets prior to netting	17.1%	82.5%	0.4%		
<b>Assets of consolidated asset management funds:</b>					
Trading assets	543	-	-	-	543
Loans	-	12,070	-	-	12,070
Other assets	463	184	-	-	647
<b>Total assets of consolidated asset management funds</b>	<b>1,006</b>	<b>12,254</b>	<b>-</b>	<b>-</b>	<b>13,260</b>
<b>Total assets</b>	<b>\$ 13,932</b>	<b>\$ 74,679</b>	<b>\$ 281</b>	<b>\$ (17,263)</b>	<b>\$ 71,629</b>
Percent of assets prior to netting	15.7%	84.0%	0.3%		
<b>Trading liabilities:</b>					
Debt and equity instruments	\$ 1,749	\$ 562	\$ -	\$ -	\$ 2,311
<b>Derivative liabilities:</b>					
Interest rate	-	17,626	124	N/A	
Foreign exchange	4,203	149	-	N/A	
Equity	59	220	50	N/A	
Other	-	1	-	N/A	
<b>Total derivative liabilities</b>	<b>4,262</b>	<b>17,996</b>	<b>174</b>	<b>(16,420) (f)</b>	<b>6,012</b>
<b>Total trading liabilities</b>	<b>6,011</b>	<b>18,558</b>	<b>174</b>	<b>(16,420)</b>	<b>8,323</b>
Long-term debt	-	276	-	-	276
Other liabilities (e)	-	279	2	-	281
<b>Subtotal liabilities at fair value</b>	<b>\$ 6,011</b>	<b>\$ 19,113</b>	<b>\$ 176</b>	<b>\$ (16,420)</b>	<b>\$ 8,880</b>
Percent of liabilities prior to netting	23.8%	75.5%	0.7%		
<b>Liabilities and obligations of consolidated asset management funds</b>	<b>3</b>	<b>12,269</b>	<b>-</b>	<b>-</b>	<b>12,272</b>
<b>Total liabilities</b>	<b>\$ 6,014</b>	<b>\$ 31,382</b>	<b>\$ 176</b>	<b>\$ (16,420)</b>	<b>\$ 21,152</b>
Percent of liabilities prior to netting	16.0%	83.5%	0.5%		



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

- (a) *ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral.*
- (b) *Includes seed capital and certain interests in securitizations.*
- (c) *Includes loans classified as trading assets and certain interests in securitizations.*
- (d) *Includes private equity investments, seed capital and derivatives in designated hedging relationships.*
- (e) *Includes the fair value adjustment for certain unfunded lending-related commitments and derivatives in designated hedging relationships and support agreements.*
- (f) *Netting cannot be disaggregated by product.*

84 BNY Mellon

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Details of certain items measured at fair value on a recurring basis**

at June 30, 2010	Total carrying value (a)	Ratings			
		AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower
<i>(dollar amounts in millions)</i>					
<b>Alt-A RMBS:</b>					
2007	\$ 1	-%	-%	-%	100%
2006	199	-	-	-	100
2005	220	-	8	-	92
2004 and earlier	78	71	25	4	-
<b>Total Alt-A RMBS</b>	<b>\$ 498</b>	<b>11%</b>	<b>7%</b>	<b>1%</b>	<b>81%</b>
<b>Prime RMBS:</b>					
2007	\$ 304	49%	27%	8%	16%
2006	182	-	40	-	60
2005	358	35	-	22	43
2004 and earlier	560	80	11	7	2
<b>Total prime RMBS</b>	<b>\$ 1,404</b>	<b>52%</b>	<b>15%</b>	<b>10%</b>	<b>23%</b>
<b>Subprime RMBS:</b>					
2007	\$ 7	9%	-%	91%	-%
2005	81	45	12	22	21
2004 and earlier	388	74	13	4	9
<b>Total subprime RMBS</b>	<b>\$ 476</b>	<b>68%</b>	<b>13%</b>	<b>9%</b>	<b>10%</b>
<b>Commercial MBS - Domestic:</b>					
2007	\$ 674	84%	8%	8%	-%
2006	630	88	8	-	4
2005	490	100	-	-	-
2004 and earlier	571	100	-	-	-
<b>Total commercial MBS - Domestic</b>	<b>\$ 2,365</b>	<b>92%</b>	<b>5%</b>	<b>2%</b>	<b>1%</b>
<b>European Floating Rate Notes:</b>					
United Kingdom	\$ 816	99%	1%	-%	-%
Netherlands	134	79	21	-	-
Other	941	77	23	-	-
<b>Total European Floating Rate Notes</b>	<b>\$ 1,891</b>	<b>87%</b>	<b>13%</b>	<b>-%</b>	<b>-%</b>
<b>Sovereign debt:</b>					
Germany	\$ 2,827	100%	-%	-%	-%
Netherlands	412	100	-	-	-
France	1,742	100	-	-	-
United Kingdom	2,100	100	-	-	-
Other	45	95	5	-	-
<b>Total sovereign debt</b>	<b>\$ 7,126</b>	<b>100%</b>	<b>-%</b>	<b>-%</b>	<b>-%</b>
<b>Grantor Trust:</b>					
<b>Alt-A RMBS:</b>					
2007	\$ 767	-%	-%	-%	100%
2006	677	-	-	-	100
2005	844	2	-	7	91
2004 and earlier	248	22	45	20	13
<b>Total Grantor Trust-Alt-A RMBS</b>	<b>\$ 2,536</b>	<b>3%</b>	<b>4%</b>	<b>4%</b>	<b>89%</b>
<b>Prime RMBS:</b>					
2007	\$ 726	-%	-%	-%	100%
2006	462	-	-	3	97
2005	734	1	5	7	87
2004 and earlier	47	51	46	-	3
<b>Total Grantor Trust-Prime RMBS</b>	<b>\$ 1,969</b>	<b>2%</b>	<b>3%</b>	<b>3%</b>	<b>92%</b>
<b>Subprime RMBS:</b>					
2007	\$ 12	-%	-%	-%	100%
2006	83	-	9	-	91
2005	12	-	-	-	100
2004 and earlier	41	49	-	-	51

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

Total Grantor Trust-Subprime RMBS	\$	148	13%	5%	-%	82%
-----------------------------------	----	-----	-----	----	----	-----

(a) All assets are considered Level 2 assets in the valuation hierarchy at June 30, 2010.

BNY Mellon 85

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Assets and liabilities measured at fair value on a recurring basis at Dec. 31, 2009**

<i>(dollar amounts in millions)</i>	Level 1	Level 2	Level 3	Netting (a)	Total carrying value
<b>Available-for-sale securities:</b>					
U.S. Treasury	\$ 6,378	\$ -	\$ -	\$ -	\$ 6,378
U.S. government agencies	-	1,260	-	-	1,260
State and political subdivisions	-	520	-	-	520
Agency RMBS	-	18,455	-	-	18,455
Alt-A RMBS	-	537	-	-	537
Prime RMBS	-	1,512	-	-	1,512
Subprime RMBS	-	447	-	-	447
Other RMBS	-	1,770	-	-	1,770
Commercial MBS	-	2,590	-	-	2,590
Asset-backed CLOs	-	383	6	-	389
Other asset-backed securities	-	836	-	-	836
Equity securities (b)	461	860	-	-	1,321
Other debt securities (b)	76	11,331	50	-	11,457
Grantor Trust Class B certificates	-	4,160	-	-	4,160
<b>Total available-for-sale</b>	<b>6,915</b>	<b>44,661</b>	<b>56</b>	<b>-</b>	<b>51,632</b>
<b>Trading assets:</b>					
Debt and equity instruments (c)	524	745	170	-	1,439
Derivative assets	2,779	14,317	146	(12,680)	4,562
<b>Total trading assets</b>	<b>3,303</b>	<b>15,062</b>	<b>316</b>	<b>(12,680)</b>	<b>6,001</b>
Loans	2	12	25	-	39
Other assets (d)	14	685	164	-	863
<b>Total assets at fair value</b>	<b>\$ 10,234</b>	<b>\$ 60,420</b>	<b>\$ 561</b>	<b>\$ (12,680)</b>	<b>\$ 58,535</b>
Percent of assets prior to netting	14.4%	84.8%	0.8%		
<b>Trading liabilities:</b>					
Debt and equity instruments	\$ 442	\$ 752	\$ -	\$ -	\$ 1,194
Derivative liabilities	2,850	14,671	92	(12,411)	5,202
<b>Total trading liabilities</b>	<b>3,292</b>	<b>15,423</b>	<b>92</b>	<b>(12,411)</b>	<b>6,396</b>
Other liabilities (e)	2	605	3	-	610
<b>Total liabilities at fair value</b>	<b>\$ 3,294</b>	<b>\$ 16,028</b>	<b>\$ 95</b>	<b>\$ (12,411)</b>	<b>\$ 7,006</b>
Percent of liabilities prior to netting	17.0%	82.5%	0.5%		

(a) ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral.

(b) Includes seed capital and certain interests in securitizations.

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

(d) Includes private equity investments, seed capital and derivatives in designated hedging relationships.

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

**Changes in Level 3 fair value measurements**

The tables below include a roll forward of the balance sheet amounts for the three and six month periods ended June 30, 2010 and 2009 (including the change in fair value), for financial instruments classified in Level 3 of the valuation hierarchy.

Our classification of a financial instrument in Level 3 of the valuation hierarchy is based on the significance of the unobservable factors to the overall fair value measurement. However, these instruments generally include other observable components that are actively quoted or validated to third party sources; accordingly, the gains and losses in the table below include changes in fair value due to observable parameters as well as the unobservable parameters in our valuation

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

methodologies. We also frequently manage the risks of Level 3 financial instruments using securities and derivatives positions that are Level 1 or 2 instruments which are not included in the table; accordingly, the gains or losses below do not reflect the effect of our risk management activities related to the Level 3 instruments.

In accordance with ASC 820, BNY Mellon adjusts the discount rate on securities to reflect what they would sell for in an orderly market (model price) and compares the model prices to prices provided by pricing sources. If the difference between the model price and the prices provided by pricing sources is outside of established thresholds, the securities are included in Level 3.

86 BNY Mellon

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Fair value measurements using significant unobservable**

inputs three months ended June 30, 2010

<i>(in millions)</i>	Fair value March 31, 2010	Total realized/unrealized gains/(losses) recorded in Comprehensive income			Purchases, issuances and settlements, net	Transfers in/(out) of Level 3	Fair value June 30, 2010	Change in unrealized gains and (losses) related to instruments held at June 30, 2010
		Income						
<b>Available-for-sale securities:</b>								
State and political subdivisions	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ (1)	\$ 9	\$ -
Other debt securities	58	-	-	-	-	(9)	49	-
Total available-for-sale	68	-(a)	-	-	-	(10)	58	-
<b>Trading assets:</b>								
Debt and equity instruments	24	(3)(b)	-	-	(1)	-	20	-
<b>Derivative assets:</b>								
Interest rate	95	(13)	-	-	-	1	83	(14)
Equity	2	1	-	-	-	-	3	1
Total derivative assets	97	(12)(b)	-	-	-	1	86	(13)
Total trading assets	121	(15)	-	-	(1)	1	106	(13)
Loans	12	1(c)	-	-	(4)	(1)	8	-
Other assets	129	2(c)	-	-	(12)	(10)	109	-
Total assets	\$ 330	\$ (12)	\$ -	\$ -	\$ (17)	\$ (20) (d)	\$ 281	\$ (13)
<b>Derivative liabilities:</b>								
Interest rate	\$ (59)	\$ (65)	\$ -	\$ -	\$ -	\$ -	\$ (124)	\$ (64)
Equity	(50)	-	-	-	-	-	(50)	-
Total derivative liabilities	(109)	(65)(b)	-	-	-	-	(174)	(64)
Other liabilities	(2)	-(c)	-	-	-	-	(2)	-
Total liabilities	\$ (111)	\$ (65)	\$ -	\$ -	\$ -	\$ -	\$ (176)	\$ (64)

**Fair value measurements using significant unobservable**

inputs three months ended June 30, 2009

<i>(in millions)</i>	Fair Value March 31, 2009	Total realized/unrealized gains/(losses) recorded in Comprehensive income			Purchases, issuances and settlements, net	Transfers in/(out) of Level 3	Fair value June 30, 2009	Change in unrealized gains and (losses) related to instruments held at June 30, 2009
		Income						
<b>Available-for-sale securities:</b>								
Alt-A RMBS	\$ 370	\$ (2)	\$ (14)	\$ (22)	\$ (221)	\$ (241)	\$ 91	\$ (1)
Prime RMBS	1,595	(2)	(65)	(113)	(825)	(825)	590	(7)
Subprime RMBS	608	-	(41)	(22)	(76)	(76)	469	-
Commercial MBS	572	-	(20)	5	(79)	(79)	478	-
Asset-backed CDO	10	(45)	41	-	-	-	6	60
Other asset-backed securities	13	-	5	-	-	(8)	10	-
Equity securities	14	-	1	1	-	-	16	-
Other debt securities	258	-	-	(16)	(90)	(90)	152	-
Total available-for-sale	3,440	(49)(a)	(93)	(167)	(1,319)	(1,319)	1,812	52
<b>Trading assets:</b>								
Debt and equity instruments	60	13(b)	-	-	-	148	221	-
Derivative assets	104	34(b)	1	6	-	-	145	-
Other assets	177	(14)(c)	-	6	-	(7)	162	-
Total assets	\$ 3,781	\$ (16)	\$ (92)	\$ (155)	\$ (1,178)	\$ (1,178)	\$ 2,340	\$ 52
<b>Trading liabilities:</b>								
Derivative liabilities	\$ (122)	\$ 31(b)	\$ -	\$ 1	\$ -	\$ -	\$ (90)	-
Other liabilities	(6)	-	-	-	-	3	(3)	-
Total liabilities	\$ (128)	\$ 31	\$ -	\$ 1	\$ 3	\$ 3	\$ (93)	\$ -

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

- (a) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive loss except for other than temporary impairment losses which are recorded in securities gains (losses).*
- (b) Reported in foreign exchange and other trading activities.*
- (c) Reported in foreign exchange and other trading activities, except for derivatives in designated hedging relationships which are recorded in interest revenue and interest expense.*
- (d) Primarily relates to investments consolidated in accordance with SFAS No. 167.*

BNY Mellon 87

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Fair value measurements using significant unobservable**

inputs six months ended June 30, 2010

<i>(in millions)</i>	Fair value Dec. 31, 2009	Total realized/unrealized gains/(losses) recorded in Comprehensive Income	Purchases, issuances and settlements, net	Transfers in/(out) of Level 3	Fair value June 30, 2010	Change in	
						unrealized gains and (losses) related to instruments held at June 30, 2010	
Available-for-sale securities:							
State and political subdivisions	\$ -	\$ -	\$ -	\$ -	\$ 9	\$ -	
Asset-backed CLOs	6	-	-	-	(6)	-	
Other debt securities	50	-	-	8	(9)	49	
Total available-for-sale	56	-(a)	-	8	(6)	58	
Trading assets:							
Debt and equity instruments	170	(1)(b)	-	4	(153)	20	
Derivative assets:							
Interest rate	121	(39)	-	-	1	83	
Equity	25	(22)	-	-	-	3	
Total derivative assets	146	(61)(b)	-	-	1	86	
Total trading assets	316	(62)	-	4	(152)	106	
Loans	25	2(c)	-	(18)	(1)	8	
Other assets	164	5(c)	-	(1)	(59)	109	
Total assets	\$ 561	\$ (55)	\$ -	\$ (7)	\$ (218) (d)	\$ 281	\$ (64)
Derivative liabilities:							
Interest rate	\$ (54)	\$ (70)	\$ -	\$ -	\$ -	\$ (124)	\$ (69)
Equity	(38)	(12)	-	-	-	(50)	(2)
Total derivative liabilities	(92)	(82)(b)	-	-	-	(174)	(71)
Other liabilities	(3)	1(c)	-	-	-	(2)	-
Total liabilities	\$ (95)	\$ (81)	\$ -	\$ -	\$ -	\$ (176)	\$ (71)

**Fair value measurements using significant unobservable**

inputs six months ended June 30, 2009

<i>(in millions)</i>	Fair Value Dec. 31, 2008	Total realized/unrealized gains/(losses) recorded in Comprehensive Income	Purchases, issuances and settlements, net	Transfers in/(out) of Level 3	Fair value June 30, 2009	Change in	
						unrealized gains and (losses) related to instruments held at June 30, 2009	
Available-for-sale securities:							
Alt-A RMBS	\$ -	\$ (1)	\$ (15)	\$ (22)	\$ 129	\$ 91	\$ 12
Prime RMBS	-	(2)	(65)	(113)	770	590	48
Subprime RMBS	-	-	(41)	(22)	532	469	30
Commercial MBS	-	-	(19)	4	493	478	35
Asset-backed CDO	22	(76)	60	-	-	6	60
Other asset-backed securities	17	-	1	-	(8)	10	(1)
Equity securities	13	-	2	1	-	16	1
Other debt securities	357	(99)	(7)	(18)	(81)	152	-
Total available-for-sale	409	(178)(a)	(84)	(170)	1,835	1,812	185
Trading assets:							
Debt and equity instruments	20	13(b)	(1)	-	189	221	(2)
Derivative assets	83	35(b)	7	3	17	145	(1)
Other assets	200	(43)(c)	-	7	(2)	162	-
Total assets	\$ 712	\$ (173)	\$ (78)	\$ (160)	\$ 2,039	\$ 2,340	\$ 182
Trading liabilities:							
Derivative liabilities	\$ (149)	\$ 53(b)	\$ 2	\$ -	\$ 4	\$ (90)	\$ -
Other liabilities	-	(8)(c)	-	-	5	(3)	-



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

Total liabilities	\$ (149)	\$ 45	\$ 2	\$ -	\$ 9	\$ (93)	\$ -
-------------------	----------	-------	------	------	------	---------	------

- (a) *Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive loss except for other than temporary impairment losses which are recorded in securities gains (losses).*
- (b) *Reported in foreign exchange and other trading activities.*
- (c) *Reported in foreign exchange and other trading activities, except for derivatives in designated hedging relationships which are recorded in interest revenue and interest expense.*
- (d) *Primarily relates to investments consolidated in accordance with SFAS No. 167.*

### *Assets and liabilities measured at fair value on a nonrecurring basis*

Under certain circumstances we make adjustments to fair value for our assets, liabilities and unfunded lending-related commitments although they are not measured at fair value on an

ongoing basis. An example would be the recording of an impairment of an asset. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at June 30, 2010 and Dec. 31, 2009, for

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

which a nonrecurring change in fair value has been recorded during the quarters ended June 30, 2010 and Dec. 31, 2009.

**Assets measured at fair value on a nonrecurring basis at June 30, 2010**

<i>(in millions)</i>	Level 1	Level 2	Level 3	Total carrying value
Loans <i>(a)</i>	\$ -	\$ 115	\$ 66	\$ 181
Other assets <i>(b)</i>	-	6	-	6
Total assets at fair value on a nonrecurring basis	\$ -	\$ 121	\$ 66	\$ 187

**Assets measured at fair value on a nonrecurring basis at Dec. 31, 2009**

<i>(in millions)</i>	Level 1	Level 2	Level 3	Total carrying value
Loans <i>(a)</i>	\$ -	\$ 298	\$ 91	\$ 389
Other assets <i>(b)</i>	-	4	-	4
Total assets at fair value on a nonrecurring basis	\$ -	\$ 302	\$ 91	\$ 393

- (a)* During the quarters ended June 30, 2010 and December 31, 2009, the fair value of these loans was reduced \$10 million and \$18 million, based on the fair value of the underlying collateral as allowed by ASC 310, Accounting by Creditors for Impairment of a Loan, with an offset to the allowance for credit losses.
- (b)* The fair value of Other assets received in satisfaction of debt was increased by \$2 million in the second quarter of 2010 and was reduced by less than \$1 million in the fourth quarter of 2009, based on the fair value of the underlying collateral with an offset in other revenue.

**Note 16 Fair value option**

ASC 825 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

On Jan. 1, 2010, we adopted SFAS No. 167, Amendments to FASB interpretation No. 46(R) (Topic 810) issued by the Financial Accounting Standards Board ( FASB ). In accordance with the guidance included in ASC 810, we consolidated assets of consolidated asset management funds. The following table presents the assets and liabilities, by type, of consolidated asset management funds. We elected the fair value option to value these assets and liabilities.

**Assets and liabilities of consolidated asset management funds, at fair value**

<i>(in millions)</i>	June 30, 2010	Dec. 31, 2009
Trading assets	\$ 543	\$ -
Loans	12,070	-
Other assets	647	-
Total assets of consolidated asset management funds	\$ 13,260	\$ -
Liabilities and obligations of consolidated asset management funds	\$ 12,272	\$ -

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

Noncontrolling interests of consolidated asset management funds	\$	666	\$	-
---	----	-----	----	---

BNY Mellon values assets in consolidated CLOs using observable market prices observed from the secondary loan market. The returns to the note holders are solely dependent on the assets and accordingly equal the value of those assets. Based on the structure of the CLOs, the valuation of the assets is attributable to the senior note holders. Accordingly, the fair value option best reflects the limited interest BNY Mellon has in the economic performance of the consolidated CLOs. Changes in the values of assets and liabilities are reflected in the income statement as investment income of consolidated asset management funds.

We have elected the fair value option on \$240 million of long-term debt in connection with ASC 810. At June 30, 2010, the fair value of this long-term debt was \$276 million. We have also elected the fair value option on approximately \$120 million of unfunded lending related commitments. The following table presents the changes in fair value of these unfunded lending related commitments and long-term debt included in foreign exchange and other trading activities in the consolidated income statement for the three and six months ended June 30, 2010 and 2009.

BNY Mellon 89

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Foreign exchange and other****trading activities**

(in millions)	Quarter ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Loans	\$ -	\$ 1	\$ -	\$ 2
Long-term debt (a)	(29)	-	(36)	-
Other liabilities	(1)	1	(1)	(1)

(a) The change in fair value of the long-term debt is approximately offset by an economic hedge included in trading.

The long-term debt is valued using observable market inputs and is included in Level 2 of the ASC 820 hierarchy. Unfunded loan commitments are valued using quotes from dealers in the loan markets, and are included in Level 3 of the ASC 820 hierarchy. The fair market value of unfunded lending-related commitments for which the fair value option was elected was a liability of \$1 million at June 30, 2010 and less than \$1 million at Dec. 31, 2009 and is included in other liabilities.

**Note 17 Derivative instruments**

We use derivatives to manage exposure to market risk, interest rate risk, credit risk, foreign currency risk, to generate profits from proprietary trading and to assist customers with their risk management objectives.

The notional amounts for derivative financial instruments express the dollar volume of the transactions; however, credit risk is much smaller. We perform credit reviews and enter into netting agreements to minimize the credit risk of foreign currency and interest rate risk management products. We enter into offsetting positions to reduce exposure to foreign exchange and interest rate risk.

Use of derivative financial instruments involves reliance on counterparties. Failure of a counterparty to honor its obligation under a derivative contract is a risk we assume whenever we engage in a derivative contract. Counterparty default losses were \$4 million in the second quarter of 2010. There were no counterparty default losses in the second quarter of 2009.

*Hedging derivatives*

We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations. For hedges of fixed-rate loans, investment securities held for sale, deposits and long-term debt, the hedge documentation specifies the terms of the hedged items and the interest rate swaps and indicates that the

derivative is hedging a fixed-rate item and is a fair value hedge, that the hedge exposure is to the changes in the fair value of the hedged item due to changes in benchmark interest rates, and that the strategy is to eliminate fair value variability by converting fixed-rate interest payments to LIBOR.

The fixed rate loans hedged generally have an original maturity of 11 years and are not callable. These loans are hedged with pay fixed rate, receive variable rate swaps with similar notional amounts, maturities, and fixed rate coupons. The swaps are not callable. At June 30, 2010, \$1 million of loans were hedged with interest rate swaps, which had notional values of \$1 million.

The securities hedged consist of asset-backed securities and U.S. Treasury bonds that generally have a weighted average life of 10 years or less. The asset-backed securities are callable six months prior to maturity. The swaps on the asset-backed securities are callable six months prior to maturity. The swaps on the U.S. Treasury bonds are not callable. All of these securities are hedged with pay fixed rate, receive variable rate swaps of the same maturity, repricing and fixed rate coupon. At June 30, 2010, \$499 million of securities were hedged with interest rate swaps that had notional values of \$508 million.

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

The fixed rate deposits hedged generally have original maturities of 5 to 11 years and are not callable. These deposits are hedged with receive fixed rate, pay variable rate swaps of similar maturity, repricing and fixed rate coupon. The swaps are not callable. At June 30, 2010, \$25 million of deposits were hedged with interest rate swaps that had notional values of \$25 million.

The fixed rate long-term debt hedged generally has an original maturity of 5 to 30 years. We issue both callable and non-callable debt. The non-callable debt is hedged with simple interest rate swaps similar to those described for deposits. Callable debt is hedged with callable swaps where the call dates of the swaps exactly match the call dates of the debt. At June 30, 2010, \$12.6 billion of debt was hedged with interest rate swaps that had notional values of \$12.2 billion.

In addition, we enter into foreign exchange hedges. We use forward foreign exchange contracts with maturities of 12 months or less to hedge our Sterling, Euro and Indian Rupee foreign exchange exposure with respect to forecasted revenue and

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

expense transactions in non-U.S. entities that have the U.S. dollar as their functional currency. As of June 30, 2010, the hedged forecasted foreign currency transactions and linked FX forward hedges were \$123 million (notional), with \$11 million of pre-tax gains recorded in other comprehensive income. These gains will be reclassified to income over the next nine months.

We also use forward foreign exchange contracts with original maturities of 12 months or less to hedge our Euro, Japanese Yen and Indian Rupee foreign exchange exposure with respect to forecasted foreign currency net revenue where we cannot elect hedge accounting. At June 30, 2010, these economic hedges had a U.S. dollar equivalent notional value of \$125 million, with \$2 million of pre-tax losses from those FX forward hedges recorded in foreign exchange and other trading activities.

Forward foreign exchange contracts are also used to hedge the value of our net investments in foreign subsidiaries. These forward contracts usually have maturities of less than two years. The derivatives employed are designated as net investments hedges of changes in value of our foreign investments due to exchange rates, such that changes in value of the forward exchange contracts offset the changes in value of the foreign investments due to changes in foreign exchange rates. The change in fair market value of these contracts is deferred and reported within accumulated translation

adjustments in shareholders' equity, net of tax effects. At June 30, 2010, foreign exchange contracts, with notional amounts totaling \$4.1 billion, were designated as hedges.

In addition to forward foreign exchange contracts, we also designate non-derivative financial instruments as hedges of our net investments in foreign subsidiaries. Those non-derivative financial instruments designated as hedges of our net investments in foreign subsidiaries were all long-term liabilities of BNY Mellon in various currencies, and, at June 30, 2010, had a combined U.S. dollar equivalent value of \$809 million.

Ineffectiveness related to derivatives and hedging relationships was recorded in income as follows:

Ineffectiveness <i>(in millions)</i>	Six months ended	
	June 30, 2010	June 30, 2009
Fair value hedge of loans	\$ (0.1)	\$ (0.1)
Fair value hedge of securities	(0.1)	(0.1)
Fair value hedge of deposits and long-term debt	11.6	2.0
Cash flow hedges	-	(0.1)
Other (a)	-	0.2
Total	\$ 11.4	\$ 1.9

(a) Includes ineffectiveness recorded on foreign exchange hedges.

The following table summarizes the notional amount and credit exposure of our total derivative portfolio at June 30, 2010 and Dec. 31, 2009.

**Impact of derivative instruments on the balance sheet**

<i>(in millions)</i>	Notional Value		Asset Derivatives		Liability Derivatives	
	Dec. 30,		Fair Value (a)		Fair Value (a)	
	June 30, 2010	2009	June 30, 2010	Dec. 31, 2009	June 30, 2010	Dec. 31, 2009
<b>Derivatives designated as hedging instruments (b):</b>						

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

Interest rate contracts	\$ 12,717	\$ 11,836	\$ 765	\$ 408	\$ 33	\$ 106
Foreign exchange contracts	4,180	3,645	111	-	3	97
Total derivatives designated as hedging instruments			\$ 876	\$ 408	\$ 36	\$ 203
<b>Derivatives not designated as hedging instruments (c):</b>						
Interest rate contracts	\$ 1,120,752	\$ 1,030,847	\$ 16,924	\$ 13,620	\$ 17,750	\$ 14,084
Equity contracts	7,789	7,710	708	483	329	570
Credit contracts	776	806	3	3	1	6
Foreign exchange contracts	338,356	259,402	4,329	3,136	4,352	2,953
Total derivatives not designated as hedging instruments			\$ 21,964	\$ 17,242	\$ 22,432	\$ 17,613
Total derivatives fair value (d)			\$ 22,840	\$ 17,650	\$ 22,468	\$ 17,816
Effect of master netting agreements			(17,263)	(12,680)	(16,420)	(12,411)
Fair value after effect of master netting agreements			\$ 5,577	\$ 4,970	\$ 6,048	\$ 5,405

- (a) Derivative financial instruments are reported net of cash collateral received and paid of \$1,005 million and \$162 million, respectively at June 30, 2010 and \$429 million and \$160 million, respectively at Dec. 31, 2009.
- (b) The fair value of asset derivatives and liability derivatives designated as hedging instruments is recorded as other assets and other liabilities, respectively, on the balance sheet.
- (c) The fair value of asset derivatives and liability derivatives not designated as hedging instruments is recorded as trading assets and trading liabilities, respectively, on the balance sheet.
- (d) Fair values are on a gross basis, before consideration of master netting agreements, as required by ASC 815.

BNY Mellon 91

**Table of Contents**

**Notes to Consolidated Financial Statements** (continued)

At June 30, 2010, approximately \$498 billion (notional) of interest rate contracts will mature within one year, \$407 billion between one and five years, and \$228 billion after five years. At June 30, 2010, approximately \$330 billion

(notional) of foreign exchange contracts will mature within one year, \$7 billion between one and five years, and \$6 billion after five years.

**Impact of derivative instruments on the income statement**

(in millions)

Derivatives in fair value hedging relationships	Location of gain or (loss) recognized in income on derivatives	Amount of gain or (loss) recognized in income on derivatives Quarter ended		Amount of gain or (loss) recognized in hedged item Quarter ended	
		June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Interest rate contracts	Net interest revenue	\$ 242.9	\$ (358.2)	\$ (238.8)	\$ 358.6

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivative (effective portion) Quarter ended		Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into income (effective portion) Quarter ended		Location of gain or (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain or (loss) recognized in income on derivative (ineffectiveness portion and amount excluded from effectiveness testing) Quarter ended	
	June 30, 2010	June 30, 2009		June 30, 2010	June 30, 2009		June 30, 2010	June 30, 2009
Interest rate contracts	\$ -	\$ -	Net interest revenue	\$ -	\$ 24.9	Net interest revenue	\$ -	\$ -
FX contracts	8.2	(3.9)	Other revenue	1.9	3.8	Other revenue	-	-
<b>Total</b>	<b>\$ 8.2</b>	<b>\$ (3.9)</b>		<b>\$ 1.9</b>	<b>\$ 28.7</b>		<b>\$ -</b>	<b>\$ -</b>

Derivatives in net investment hedging relationships	Amount of gain or (loss) recognized in OCI on derivative (effective portion) Quarter ended		Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into income (effective portion) Quarter ended		Location of gain or (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain or (loss) recognized in income on derivative (ineffectiveness portion and amount excluded from effectiveness testing) Quarter ended	
	June 30, 2010	June 30, 2009		June 30, 2010	June 30, 2009		June 30, 2010	June 30, 2009
FX contracts	\$ 67.7	\$ (250.7)	Net interest revenue	\$ -	\$ -	Other revenue	\$ -	\$ (0.1)



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

Impact of derivative instruments on the income statement

(in millions)

Derivatives in	fair value	hedging	relationships	Location of gain or (loss) recognized in income on derivatives	Amount of gain or (loss) recognized in income on derivatives Six months ended		Location of gain or (loss) recognized in income on hedged item	Amount of gain or (loss) recognized in income on hedged item Six months ended	
					June 30, 2010	June 30, 2009		June 30, 2010	June 30, 2009
Interest rate contracts				Net interest revenue	\$ 409.6	\$ (356.9)	Net interest revenue	\$ (398.2)	\$ 358.8

Derivatives in	cash flow	hedging	relationships	Amount of gain or (loss) recognized in OCI on derivative (effective portion) Six months ended		Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) Six months ended	Amount of gain or (loss) reclassified from accumulated OCI into income (effective portion) Six months ended	Location of gain or (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain or (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing) Six months ended		
				June 30, 2010	June 30, 2009				June 30, 2010	June 30, 2009	June 30, 2010
Interest rate contracts				\$ -	\$ -	Net interest revenue	\$ -	\$ 25.9	Net interest revenue	\$ -	\$ (0.1)
FX contracts				12.7	0.1	Other revenue	2.0	8.9	Other revenue	-	-
<b>Total</b>				<b>\$ 12.7</b>	<b>\$ 0.1</b>		<b>\$ 2.0</b>	<b>\$ 34.8</b>		<b>\$ -</b>	<b>\$ (0.1)</b>

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

	Amount of gain or (loss) recognized in OCI on derivative (effective portion) Six months ended		Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) Six months ended	Amount of gain or (loss) reclassified from accumulated OCI into income (effective portion) Six months ended	Location of gain or (loss) recognized in income on derivative (ineffective portion) and amount excluded from effectiveness testing	Amount of gain or (loss) recognized in income on derivative (ineffectiveness portion and amount excluded from effectiveness testing) Six months ended		
	June 30, 2010	June 30, 2009				June 30, 2010	June 30, 2009	
FX contracts	\$ 137.2	\$ (205.7)	Net interest revenue	\$ -	\$ -	Other revenue	\$ -	\$ 0.1

*Trading activities (including trading derivatives)*

Our trading activities are focused on acting as a market maker for our customers. The risk from these market-making activities and from our own positions is managed by our traders and limited in total exposure as described below.

We manage trading risk through a system of position limits, a VAR methodology based on Monte Carlo simulations, stop loss advisory triggers, and other market sensitivity measures. Risk is monitored and reported to senior management by a separate unit on a daily basis. Based on certain assumptions, the VAR methodology is designed to capture the potential overnight pre-tax dollar loss from adverse changes in fair values of all trading positions. The calculation assumes a one-day holding period for most instruments, utilizes a 99% confidence level, and incorporates the non-linear characteristics of options. The VAR model is one of several statistical models used to develop economic capital results, which is allocated to lines of business for computing risk-adjusted performance.

As the VAR methodology does not evaluate risk attributable to extraordinary financial, economic or other occurrences, the risk assessment process includes a number of stress scenarios based upon the risk factors in the portfolio and management's assessment of market conditions. Additional stress scenarios based upon historic market events are also performed. Stress tests, by their design, incorporate the impact of reduced liquidity and the breakdown of observed correlations. The results of these stress tests are reviewed weekly with senior management.

Revenue from foreign exchange and other trading activities included the following:

**Foreign exchange and other trading activities**

<i>(in millions)</i>	Year-to-date				
	2Q10	1Q10	2Q09	2010	2009
Foreign exchange	\$ 244	\$ 175	\$ 240	\$ 419	\$ 459
Fixed income	(32)	80	37	48	112
Credit derivatives (a)	4	(2)	(45)	2	(46)
Other	4	9	5	13	19
Total	\$ 220	\$ 262	\$ 237	\$ 482	\$ 544

(a) Used as economic hedges of loans.

Foreign exchange includes income from purchasing and selling foreign currencies and currency forwards, futures, and options. Fixed income reflects results from futures and forward contracts, interest rate swaps, foreign currency swaps, options, and fixed income securities. Credit derivatives include revenue from credit default swaps. Other primarily includes income from equity securities and equity derivatives.

*Counterparty credit risk and collateral*

We assess credit risk of our counterparties through regular periodic examination of their financial statements, confidential communication with the management of those counterparties and regular monitoring of publicly available credit rating information. This and other information is used to develop proprietary credit rating metrics used to assess credit quality.

Collateral requirements are determined after a comprehensive review of the credit quality of each counterparty. Collateral is generally held in the form of cash or highly liquid government securities. Collateral requirements are monitored and adjusted daily.

Additional disclosures concerning derivative financial instruments are provided in Note 15 of the Notes to Consolidated Financial Statements.

**Table of Contents****Notes to Consolidated Financial Statements** (continued)*Disclosure of Contingent Features in Over-the-Counter ( OTC ) Derivative Instruments*

Certain of BNY Mellon's OTC derivative contracts and/or collateral agreements contain provisions that would require us to take certain actions if our public debt rating fell to a certain level. Early termination provisions, or "close-out" agreements, in those contracts could trigger immediate payment of outstanding contracts that are in net liability positions. Certain collateral agreements would require us to immediately post additional collateral to cover some or all of BNY Mellon's liabilities to a counterparty.

The following table shows the fair value of contracts falling under early termination provisions that were in net liability positions as of June 30, 2010 for three key ratings triggers.

**If the BNY Mellon's rating**

<b>was changed to:</b>	<b>Potential close-out exposures (fair value)</b>
A3/A-	\$ 597 million
Baa2/BBB	\$ 864 million
Bal/BB+	\$ 1,773 million

Additionally, if BNY Mellon's debt rating had fallen below investment grade on June 30, 2010, existing collateral arrangements would have required us to post an additional \$760 million of collateral.

**Note 18 Commitments and contingent liabilities**

In the normal course of business, various commitments and contingent liabilities are outstanding which are not reflected in the accompanying consolidated balance sheets.

Our significant trading and off-balance sheet risks are securities, foreign currency and interest rate risk management products, commercial lending commitments, letters of credit, securities lending indemnifications and support agreements. We assume these risks to reduce interest rate and foreign currency risks, to provide customers with the ability to meet credit and liquidity needs, to hedge foreign currency and interest rate risks, and to trade for our own account. These items involve, to varying degrees, credit, foreign exchange, and interest rate risk not recognized in the balance sheet. Our off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. Significant industry concentrations related to credit exposure at June 30, 2010 are disclosed in the

Financial institutions portfolio exposure table and the Commercial portfolio exposure table below.

**Financial institutions****June 30, 2010****portfolio exposure**

<i>(in billions)</i>	<b>Loans</b>	<b>Unfunded commitments</b>	<b>Total exposure</b>
Banks	\$ 4.1	\$ 2.5	\$ 6.6
Securities industry	3.7	2.5	6.2
Insurance	0.2	5.0	5.2
Asset managers	0.9	2.7	3.6
Government	0.1	2.2	2.3
Other	0.2	2.0	2.2
Total	\$ 9.2	\$ 16.9	\$ 26.1

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

Commercial

June 30, 2010

portfolio exposure

<i>(in billions)</i>	Loans	Unfunded commitments	Total exposure
Services and other	\$ 0.8	\$ 6.8	\$ 7.6
Manufacturing	0.7	6.1	6.8
Energy and utilities	0.5	5.9	6.4
Media and telecom	0.4	1.9	2.3
Total	\$ 2.4	\$ 20.7	\$ 23.1

Major concentrations in securities lending are primarily to broker-dealers and are generally collateralized with cash. Securities lending transactions are discussed below.

A summary of our off-balance sheet credit risks, net of participations, at June 30, 2010 and Dec. 31, 2009 follows:

Off-balance sheet credit risks

<i>(in millions)</i>	June 30, 2010	Dec 31, 2009
Lending commitments (a)	\$ 30,415	\$ 32,454
Standby letters of credit (b)	9,912	11,359
Commercial letters of credit	854	789
Securities lending indemnifications	248,336	247,560
Support agreements	116	86

(a) Net of participations totaling \$358 million at June 30, 2010 and \$541 million at Dec. 31, 2009.

(b) Net of participations totaling \$2.1 billion at June 30, 2010 and \$2.2 billion at Dec. 31, 2009.

Included in lending commitments are facilities which provide liquidity, primarily for variable rate tax exempt securities wrapped by monoline insurers. The credit approval for these facilities is based on an assessment of the underlying tax-exempt issuer and considers factors other than the financial strength of the monoline insurer.

The total potential loss on undrawn lending commitments, standby and commercial letters of credit, and securities lending indemnifications is

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

equal to the total notional amount if drawn upon, which does not consider the value of any collateral.

Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. A summary of lending commitment maturities is as follows: \$11.9 billion less than one year; \$18.2 billion in one to five years, and \$0.3 billion over five years.

Standby letters of credit ( SBLC ) principally support corporate obligations. As shown in the off-balance sheet credit risks table, the maximum potential exposure of SBLCs was \$9.9 billion at June 30, 2010 and \$11.4 billion at Dec. 31, 2009 and includes \$980 million and \$1.0 billion that were collateralized with cash and securities at June 30, 2010 and Dec. 31, 2009, respectively. At June 30, 2010, approximately \$7.2 billion of the SBLCs will expire within one year and the remaining \$2.7 billion will expire within one to five years.

The estimated liability for losses related to these commitments and SBLCs, if any, is included in the allowance for unfunded commitments. The allowance for lending related commitments was \$103 million at June 30, 2010 and \$125 million at Dec. 31, 2009.

Payment/performance risk of SBLCs is monitored using both historical performance and internal ratings criteria. BNY Mellon's historical experience is that SBLCs typically expire without being funded. SBLCs below investment grade are monitored closely for payment/performance risk. The table below shows SBLCs by investment grade:

<b>Standby letters of credit</b>	<b>June 30, 2010</b>	<b>Dec 31, 2009</b>
Investment grade	<b>87%</b>	<b>83%</b>
Noninvestment grade	<b>13%</b>	<b>17%</b>

A securities lending transaction is a fully collateralized transaction in which the owner of a security agrees to lend the security (typically through an agent, in our case, The Bank of New York Mellon), to a borrower, usually a broker-dealer or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which generally matures in less than 90 days. We generally lend securities with indemnification against broker default.

We generally require the borrower to provide 102% cash collateral which is monitored on a daily basis, thus reducing credit risk. Security lending transactions are generally entered into only with highly-rated counterparties. Securities lending indemnifications were secured by collateral of \$255 billion at June 30, 2010 and \$254 billion at Dec. 31, 2009.

Our potential exposure to support agreements was approximately \$116 million at June 30, 2010 compared with \$86 million at Dec. 31, 2009. Potential support agreement exposure is determined based on the securities subject to these agreements being valued at zero and the NAV of the related funds declining below established thresholds. This exposure includes agreements covering Lehman securities, as well as other client support agreements.

*Other*

We have provided standard representations for underwriting agreements, acquisition and divestiture agreements, sales of loans and commitments, and other similar types of arrangements and customary indemnification for claims and legal proceedings related to providing financial services. Insurance has been purchased to mitigate certain of these risks. We are a minority equity investor in, and member of, several industry clearing or settlement exchanges through which foreign exchange, securities, or other transactions settle. Certain of these industry clearing or settlement exchanges require their members to guarantee their obligations and liabilities or to provide financial support in the event other partners do not honor their obligations. It is not possible to estimate a maximum potential amount of payments that could be required with such agreements.

Legal proceedings

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

In the ordinary course of business, BNY Mellon and its subsidiaries are routinely defendants in or parties to a number of pending and potential legal actions, including actions brought on behalf of various classes of claimants, and regulatory matters. Claims for significant monetary damages are asserted in certain of these actions and proceedings. In regulatory enforcement matters, claims for disgorgement and the imposition of penalties and/or other remedial sanctions are possible. Due to the inherent difficulty of predicting the outcome of such matters, BNY Mellon cannot ascertain what the eventual outcome of these matters will be; however, on the basis of current knowledge and after

BNY Mellon 95

---

**Table of Contents**

**Notes to Consolidated Financial Statements** (continued)

consultation with legal counsel, we do not believe that judgments or settlements, if any, arising from pending or potential legal actions or regulatory matters, either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage, will have a material adverse effect on the consolidated financial position or liquidity of BNY Mellon, although they could have a material effect on net income in a given period. BNY Mellon intends to defend itself vigorously against all of the claims asserted in these legal actions.

In view of the inherent unpredictability of litigation and regulatory matters, particularly where the damages sought are substantial or indeterminate, the investigations or proceedings are in the early stages, or the matters involve novel legal theories or a large number of parties, there is considerable uncertainty surrounding the timing or ultimate resolution of litigations and regulatory matters or the eventual loss, fines, penalties or business impact, if any, associated with each pending matter. In accordance with ASC 450 (formerly SFAS 5), BNY Mellon establishes reserves for litigation and regulatory matters when those matters present loss contingencies that both are probable and can be reasonably estimated as is the case in certain of the legal matters described. For these matters and others which are disclosed because an unfavorable outcome is reasonably possible but not probable, there may be a range of possible losses which either cannot be estimated or, to the extent a range could possibly be determined, the range would be so imprecise, uncertain or wide as to not be meaningful. BNY Mellon believes that its accruals for legal proceedings are appropriate and in the aggregate are not material to the consolidated financial position of BNY Mellon, although future accruals could have a material effect on net income in a given period.

As previously disclosed, The Bank of New York Mellon filed a proof of claim on Jan. 18, 2008, in the Chapter 11 bankruptcy of Sentinel Management Group, Inc. ( Sentinel ), seeking to recover approximately \$312 million loaned to Sentinel and secured by securities and cash in an account maintained by Sentinel at The Bank of New York Mellon. Pursuant to a Plan of Reorganization confirmed by the Bankruptcy Court on Dec. 8, 2008, \$370 million of cash has been set aside as a reserve in the bankruptcy, to be used by The Bank of New York Mellon if its proof of claim is allowed in the bankruptcy.

On March 3, 2008, the bankruptcy trustee filed an adversary complaint against The Bank of New York Mellon seeking to

disallow The Bank of New York Mellon's claim and seeking damages against The Bank of New York Mellon for allegedly aiding and abetting Sentinel insiders in misappropriating customer assets and improperly using them as collateral for the loan. A bench trial of the bankruptcy trustee's claims concluded on May 26, 2010.

As previously disclosed, the Commodities Futures Trading Commission ( CFTC ) has been investigating The Bank of New York Mellon in connection with its relationship to Sentinel and the Division of Enforcement (the Division ) of the CFTC has indicated that the Division is considering a recommendation to the Commission that it file a civil enforcement action against The Bank of New York Mellon for possible violations of the Commodity Exchange Act and CFTC regulations. The Bank of New York Mellon responded to the CFTC on Jan. 29, 2010 explaining why it believes an enforcement action is unwarranted.

As previously disclosed, BNY Mellon is required to file information and withholding tax returns with the IRS for its various business lines. In 2007, we discovered certain inconsistencies in supporting documentation and records for BNY Mellon's corporate trust business and other business lines, and initiated an extensive company-wide review. We disclosed this matter to the IRS on a voluntary basis and we continue to cooperate with the IRS in its review of this matter.

As previously disclosed, in 2001 we entered into a transaction that involved the payment of U.K. corporate income taxes that were credited against our U.S. corporate income tax liability. On Aug. 17, 2009, we received a Statutory Notice of Deficiency disallowing tax benefits for the 2001 and 2002 tax years related to this transaction. The total exposure on this transaction for all years (2001-2006) is approximately \$900 million, including interest. On Nov. 10, 2009, BNY Mellon filed a petition with the U.S. Tax Court contesting the disallowance of the benefits. A final decision is not expected before 2011.

BNY Mellon believes the tax benefits associated with the transaction were consistent with statutory and judicial authority existing at the time the transaction was entered into. In the event BNY Mellon is unsuccessful in defending its position, the IRS has agreed not to assess underpayment penalties.





---

**Table of Contents**

**Notes to Consolidated Financial Statements** (continued)

As previously disclosed, BNY Mellon self-disclosed to the SEC, in April 2008, that Mellon Financial Markets LLC ( MFM ) placed orders on behalf of issuers to purchase their own Auction Rate Securities ( ARS ). The SEC and certain state authorities, including the Texas State Securities Board, Florida Office of Financial Regulation, and the New York State Attorney General are investigating these transactions. MFM is cooperating fully with the investigations.

As previously disclosed, BNY Mellon Capital Markets LLC entered into a letter of Acceptance, Waiver and Consent with the Financial Industry Regulatory Authority, Inc. ( FINRA ) relating to the sale of ARS in April 2009. Two institutional customers not included in the FINRA settlement filed lawsuits in February and April 2009 and one such customer filed an arbitration proceeding against BNY Mellon Capital Markets LLC in December 2008, alleging misrepresentations and omissions in the sale of ARS to them.

As previously disclosed, BNY Mellon became aware of circumstances suggesting that employees of Mellon Securities LLC ( Mellon Securities ), which executed orders to purchase and sell securities on behalf of Mellon Investor Services LLC, failed to comply with certain best execution and regulatory requirements in connection with agency cross trades. BNY Mellon self-disclosed this matter to FINRA and the SEC on a voluntary basis. In June 2009, the SEC obtained a formal order of investigation. Mellon Securities is cooperating fully with the investigation. We are currently in discussions with the SEC staff concerning a resolution to this matter. There can be no assurance we will be able to reach an agreement.

As previously disclosed, a number of participants in the securities lending program, which is associated with BNY Mellon s asset servicing business, have filed or threatened lawsuits against BNY Mellon or its affiliates. The lawsuits were filed on various dates from 2008 to 2010. The participants allege that they have incurred losses, including losses related to investments in Sigma Finance Inc. and Lehman Brothers Holdings, Inc., and seek damages as to those losses. One such pending case seeks to proceed as a class action. The participants assert contractual, statutory, and common law claims, including claims for negligence and breach of fiduciary duty.

As previously disclosed, Bernard L. Madoff has pleaded guilty to engaging in a massive investment fraud through his

company, Bernard L. Madoff Investment Securities LLC ( Madoff ). Ivy Asset Management LLC ( Ivy ), a subsidiary of BNY Mellon that primarily manages funds-of-hedge-funds and is in the process of winding down, has not had any funds-of-funds investments with Madoff since 2000. Several investment managers contracted with Ivy as a sub-advisor and one pension fund contracted with Ivy as investment manager; a portion of these funds were invested with Madoff and likely suffered losses as a result of the Madoff fraud.

The New York State Attorney General investigated these relationships and commenced a civil lawsuit against Ivy on May 11, 2010. The lawsuit alleges that Ivy and its two principals purportedly did not disclose certain material facts about Madoff.

Ivy or its affiliates have been named in a number of civil lawsuits filed from 2008 to 2010 relating to certain investment funds that invested with Madoff. Ivy acted as a sub-advisor to the managers of some of those funds. Plaintiffs allege that the funds suffered losses in connection with the Madoff investments. Plaintiffs assert various causes of action including securities and common-law fraud. Certain of the cases seek to proceed as class actions and/or to assert derivative claims on behalf of the funds.

As previously disclosed, The Bank of New York Mellon has been named as a defendant in a number of putative class actions and non-class actions brought by numerous plaintiffs, in connection with its role as indenture trustee for debt issued by affiliates of Medical Capital Corporation ( Medical Capital ). The actions, filed in late 2009, allege that The Bank of New York Mellon breached its fiduciary and contractual obligations to the holders of the underlying securities, and seek unspecified damages. In a separate action, the SEC has alleged that Medical Capital, along with certain of its affiliates and principals, engaged in securities fraud. The court ordered the appointment of a permanent receiver over Medical Capital. The Bank of New York Mellon is not a party to the SEC action.

As previously disclosed, beginning in December 2009, certain governmental authorities requested information or served subpoenas on BNY Mellon, seeking information relating to foreign exchange trades executed in connection with custody services BNY Mellon provides to certain governmental



**Table of Contents****Notes to Consolidated Financial Statements** (continued)

entities and public pension plans. BNY Mellon is cooperating with these inquiries.

As previously disclosed, BNY Mellon subsidiary Pershing LLC (Pershing) has been named as a defendant in more than 80 lawsuits filed in Germany. The plaintiffs are investors who maintained accounts at German broker-dealers. The plaintiffs allege that Pershing, which had a contractual relationship with the broker-dealers through which the broker-dealers executed options transactions on behalf of the broker-dealers clients, should be held liable for the tortious acts of the broker-dealers. On March 9, 2010, the German Federal Supreme Court ruled in the plaintiff's favor in one of these cases, and held Pershing liable for a German broker-dealer's tortious acts. Pershing has appealed to the German Constitutional Court.

**Note 19 Business segments**

Our segment 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 segments will track their economic performance.

Segment results are subject to reclassification whenever improvements are made in the measurement principles or when organizational changes are made.

The accounting policies of the business segments are the same as those described in Note 1 to the Consolidated Financial Statements in BNY Mellon's 2009 Annual Report on Form 10-K. In addition, client deposits serve as the primary funding source for our investment securities portfolio and we typically allocate all interest revenue to the businesses generating the deposits. Accordingly, the higher yield related to the restructured investment securities portfolio has been included in the segment results.

For additional information on our business segments, see Note 28 to the Consolidated Financial Statements in BNY Mellon's 2009 Annual Report on Form 10-K.

The following consolidating schedules show the contribution of our segments to our overall profitability. Business segments are reported on a continuing operations basis for all periods presented.

**For the quarter ended June 30, 2010**

	Total									
	Asset and Wealth			Total						
<i>(dollar amounts</i>	Asset	Wealth	Management	Asset	Issuer	Clearing	Treasury	Institutional	Other	Total
<i>in millions)</i>	Management	Management	Sector	Servicing	Services	Services	Services	Sector	Segment	continuing operations
Fee and other revenue	\$ 637 (a)	\$ 147	\$ 784	\$ 906	\$ 380	\$ 276	\$ 196	\$ 1,758	\$ 61	\$ 2,603 (a)
Net interest revenue	1	56	57	216	216	93	161	686	(21)	722
Total revenue	638	203	841	1,122	596	369	357	2,444	40	3,325
Provision for credit losses	-	-	-	-	-	-	-	-	20	20
Noninterest expense	517	154	671	786	339	277	193	1,595	66	2,332
Income before taxes	\$ 121 (a)	\$ 49	\$ 170	\$ 336	\$ 257	\$ 92	\$ 164	\$ 849	\$ (46)	\$ 973 (a)
Pre-tax operating margin (b)	19%	24%	20%	30%	43%	25%	46%	35%	N/M	29%

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

Average assets	\$ 24,895	\$ 10,399	\$ 35,294	\$ 62,940	\$ 48,938	\$ 21,550	\$ 26,485	\$ 159,913	\$ 33,374	\$ 228,581 (c)
----------------	-----------	-----------	-----------	-----------	-----------	-----------	-----------	------------	-----------	----------------

- (a) Total fee and other revenue and income before taxes for the second quarter of 2010 includes income from consolidated asset management funds of \$65 million and net of income attributable to noncontrolling interests of \$33 million. The net of these income statement line items of \$32 million is included above in fee and other revenue.
- (b) Income before taxes divided by total revenue.
- (c) Including average assets of discontinued operations of \$260 million for the second quarter of 2010, consolidated average assets were \$228,841 million.  
N/M - Not meaningful.

**Table of Contents**
**Notes to Consolidated Financial Statements** (continued)

**For the quarter ended March 31, 2010**

	Total										
	Asset and Wealth			Total Institutional							Total
<i>(dollar amounts in millions)</i>	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Services Sector	Other Segment	continuing operations	
Fee and other revenue	\$ 649 (a)	\$ 146	\$ 795	\$ 798	\$ 358	\$ 271	\$ 225	\$ 1,652	\$ 143	\$ 2,590 (a)	
Net interest revenue	-	55	55	210	252	95	176	733	(23)	765	
Total revenue	649	201	850	1,008	610	366	401	2,385	120	3,355	
Provision for credit losses	-	-	-	-	-	-	-	-	35	35	
Noninterest expense	503	145	648	723	324	261	188	1,496	316	2,460	
Income before taxes	\$ 146 (a)	\$ 56	\$ 202	\$ 285	\$ 286	\$ 105	\$ 213	\$ 889	\$ (231)	\$ 860 (a)	
Pre-tax operating margin (b)	23%	28%	24%	28%	47%	29%	53%	37%	N/M	26%	
Average assets	\$ 25,187	\$ 9,722	\$ 34,909	\$ 59,704	\$ 52,838	\$ 20,338	\$ 26,716	\$ 159,596	\$ 30,012	\$ 224,517 (c)	

(a) Total fee and other revenue and income before taxes for the first quarter of 2010 includes income from consolidated asset management funds of \$65 million net of income attributable to noncontrolling interests of \$24 million. The net of these income statement line items of \$41 million is included above in fee and other revenue.

(b) Income before taxes divided by total revenue.

(c) Including average assets of discontinued operations of \$898 million for the first quarter of 2010, consolidated average assets were \$225,415 million. N/M - Not meaningful.

**For the quarter ended June 30, 2009**

	Total										
	Asset and Wealth			Total Institutional							Total
<i>(dollar amounts in millions)</i>	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Services Sector	Other Segment	continuing operations	
Fee and other revenue	\$ 529	\$ 140	\$ 669	\$ 904	\$ 413	\$ 314	\$ 180	\$ 1,811	\$ (223)	\$ 2,257	
Net interest revenue	7	49	56	211	185	87	157	640	4	700	
Total revenue	536	189	725	1,115	598	401	337	2,451	(219)	2,957	
Provision for credit losses	-	-	-	-	-	-	-	-	61	61	
Noninterest expense	474	147	621	715	325	263	198	1,501	261	2,383	
Income before taxes	\$ 62	\$ 42	\$ 104	\$ 400	\$ 273	\$ 138	\$ 139	\$ 950	\$ (541)	\$ 513	
Pre-tax operating margin (a)	12%	22%	14%	36%	46%	34%	41%	39%	N/M	17%	
Average assets	\$ 12,404	\$ 9,131	\$ 21,535	\$ 58,339	\$ 52,161	\$ 17,014	\$ 24,764	\$ 152,278	\$ 32,413	\$ 206,226 (b)	

(a) Income before taxes divided by total revenue.

(b) Including average assets of discontinued operations of \$2,307 million for the second quarter of 2009, consolidated average assets were \$208,533 million. N/M - Not meaningful.

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

For the six months ended June 30, 2010

	Total									
	Asset and Wealth			Total Institutional				Other Segment		Total continuing operations
<i>(dollar amounts in millions)</i>	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Services Sector		
<b>Fee and other revenue</b>	\$ 1,286 <i>(a)</i>	\$ 293	\$ 1,579	\$ 1,704	\$ 738	\$ 547	\$ 421	\$ 3,410	\$ 204	\$ 5,193 <i>(a)</i>
<b>Net interest revenue</b>	1	111	112	426	468	188	337	1,419	(44)	1,487
<b>Total revenue</b>	1,287	404	1,691	2,130	1,206	735	758	4,829	160	6,680
<b>Provision for credit losses</b>	-	-	-	-	-	-	-	-	55	55
<b>Noninterest expense</b>	1,020	299	1,319	1,509	663	538	381	3,091	382	4,792
<b>Income before taxes</b>	\$ 267 <i>(a)</i>	\$ 105	\$ 372	\$ 621	\$ 543	\$ 197	\$ 377	\$ 1,738	\$ (277)	\$ 1,833 <i>(a)</i>
<b>Pre-tax operating margin <i>(b)</i></b>	21%	26%	22%	29%	45%	27%	50%	36%	N/M	27%
<b>Average assets</b>	\$ 25,040	\$ 10,063	\$ 35,103	\$ 61,331	\$ 50,877	\$ 20,947	\$ 26,600	\$ 159,755	\$ 31,703	\$ 226,561 <i>(c)</i>

(a) Total fee and other revenue and income before taxes for the first six months of 2010 includes income from consolidated asset management funds of \$130 million and net of income attributable to noncontrolling interests of \$57 million. The net of these income statement line items of \$73 million is included above in asset management fees and other revenue.

(b) Income before taxes divided by total revenue.

(c) Including average assets of discontinued operations of \$577 million for the six months ended June 30, 2010, consolidated average assets were \$227,138 million.

N/M - Not meaningful.

BNY Mellon 99

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**For the six months ended June 30, 2009**

	Total									
	Asset and Wealth			Total						
<i>(dollar amounts in millions)</i>	Asset Management	Wealth Management	Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Institutional Services Sector	Other Segment	Total continuing operations
Fee and other revenue	\$ 1,008	\$ 281	\$ 1,289	\$ 1,745	\$ 818	\$ 635	\$ 407	\$ 3,605	\$ (501)	\$ 4,393
Net interest revenue	22	99	121	460	385	169	316	1,330	24	1,475
Total revenue	1,030	380	1,410	2,205	1,203	804	723	4,935	(477)	5,868
Provision for credit losses	-	-	-	-	-	-	-	-	120	120
Noninterest expense	927	287	1,214	1,432	643	522	393	2,990	459	4,663
Income before taxes	\$ 103	\$ 93	\$ 196	\$ 773	\$ 560	\$ 282	\$ 330	\$ 1,945	\$ (1,056)	\$ 1,085
Pre-tax operating margin (a)	10%	24%	14%	35%	47%	35%	46%	39%	N/M	18%
Average assets	\$ 12,533	\$ 9,370	\$ 21,903	\$ 61,752	\$ 51,516	\$ 17,803	\$ 26,704	\$ 157,775	\$ 32,280	\$ 211,958 (b)

(a) Income before taxes divided by total revenue.

(b) Including average assets of discontinued operations of \$2,336 million for the six months ended June 30, 2009, consolidated average assets were \$214,294 million.

N/M - Not meaningful.



**Table of Contents**

**Item 4. Controls and Procedures**

*Disclosure controls and procedures*

Our management, including the Chief Executive Officer and Chief Financial Officer, with participation by the members of the Disclosure Committee, has responsibility for ensuring that there is an adequate and effective process for establishing, maintaining, and evaluating disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in our SEC reports is timely recorded, processed, summarized and reported and that information required to be disclosed by BNY Mellon is accumulated and communicated to BNY Mellon's management to allow timely decisions regarding the required disclosure. In addition, our ethics hotline can also be used by employees and others for the anonymous communication of concerns about financial controls or reporting matters. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

*Changes in internal control over financial reporting*

In the ordinary course of business, we may routinely modify, upgrade or enhance our internal controls and procedures for financial reporting. There have not been any changes in our internal controls over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act during the second quarter of 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

---

## Table of Contents

### **Forward-looking Statements**

Some statements in this document are forward-looking. These include all statements about the future results of BNY Mellon; areas of our business expected to be impacted by the current market environment; the impact of changes in the value of market indices; factors affecting the performance of our segments; management's judgment in determining the size of unallocated allowances and the effect of credit ratings on allowances, estimates and cash flow models. In addition, these forward-looking statements relate to: the timing of the settlement of our forward contract and the use of proceeds from such settlement; expectations with respect to our acquisitions, including the timing, the impact on earnings, anticipated segment reporting, amount of acquired deposits and associated payments, business focuses, and statements with respect to future plans for BNY Mellon Clearing; expectations with respect to the implementation of the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and the Office of Thrift Supervision's final rule on capital requirements for assets consolidated under ASC 860 and ASC 810 and the impact on our Tier 1 capital ratio; expectations with respect to our anticipated third quarter of 2010 tax rate; our goal of increasing the percentage of revenue and income from outside the U.S.; targeted capital ratios; expectations with respect to BNY Mellon's investment securities portfolio, including the credit rating of securities in the Grantor Trust assumptions with respect to residential mortgage-backed securities; statements on our institutional credit strategies; goals with respect to our commercial portfolio; descriptions of our allowance for credit losses and loan losses; assumptions in amounts of interest income for loans on nonaccrual status; descriptions of our exposure to support agreements; statements with respect to our liquidity targets, including the effect of reductions in securities servicing; access to capital markets and our shelf registration statements; implications of credit rating downgrades on The Bank of New York Mellon, BNY Mellon, N.A. and the Parent Company; expectations with respect to capital, including anticipated repayment and call of outstanding debt and issuance of replacement securities; our target double leverage ratio; assumptions with respect to the effects of changes in risk-weighted assets on capital ratios; estimations in net interest rate sensitivities; timing and impact of adoption of recent accounting guidance; the timing and effects of pending and proposed legislation and regulation, including the Dodd-Frank Act, proposed FDIC assessments, the proposed Financial Crisis Responsibility Fee, the Restoring American Financial Stability Act of 2009 proposed bill and the implementation of IFRS; the materiality of acquisitions; amount of dividends bank subsidiaries can pay without regulatory

waiver; BNY Mellon's anticipated actions with respect to legal or regulatory proceedings; future litigation costs, the expected outcome and impact of judgments and settlements, if any, arising from pending or potential legal or regulatory proceedings and BNY Mellon's expectations with respect to litigation accruals.

In this report, any other report, any press release or any written or oral statement that BNY Mellon or its executives may make, words, such as estimate, forecast, project, anticipate, confident target, expect, intend, seek, believe, plan, goal, could, should, might, may, trends and words of similar meaning, signify forward-looking statements.

Factors that could cause BNY Mellon's results to differ materially from those described in the forward-looking statements, as well as other uncertainties affecting future results and the value of BNY Mellon's stock and factors which represents risk associated with the business and operations of BNY Mellon, can be found in Risk Factors in the Form 10-K for the year ended Dec. 31, 2009 and in this Form 10-Q, and any subsequent reports filed with the Securities and Exchange Commission (the Commission) by BNY Mellon pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act).

Forward-looking statements, including discussions and projections of future results of operations and discussions of future plans contained in the MD&A, are based on management's current expectations and assumptions that involve risk and uncertainties and that are subject to change based on various important factors (some of which are beyond BNY Mellon's control), including adverse changes in market conditions, and the timing of such changes, and the actions that management could take in response to these changes. Actual results may differ materially from those expressed or implied as a result of these risks and uncertainties and the risks and uncertainties described in the documents referred to in the preceding paragraph. The Risk Factors discussed in the Form 10-K for the year ended Dec. 31, 2009 and in this Form 10-Q could cause or contribute to such differences. Investors should consider all risks mentioned elsewhere in this document and in subsequent reports filed by BNY Mellon with the Commission pursuant to the Exchange Act, as well as other uncertainties affecting future results and the value of BNY Mellon's stock.

All forward-looking statements speak only as of the date on which such statements are made, and BNY Mellon undertakes no obligation to update any statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.



---

**Table of Contents****Part II Other Information****Item 1. Legal Proceedings**

In the ordinary course of business, BNY Mellon and its subsidiaries are routinely defendants in or parties to a number of pending and potential legal actions, including actions brought on behalf of various classes of claimants, and regulatory matters. Claims for significant monetary damages are asserted in certain of these actions and proceedings. In regulatory enforcement matters, claims for disgorgement and the imposition of penalties and/or other remedial sanctions are possible. Due to the inherent difficulty of predicting the outcome of such matters, BNY Mellon cannot ascertain what the eventual outcome of these matters will be; however, on the basis of current knowledge and after consultation with legal counsel, we do not believe that judgments or settlements, if any, arising from pending or potential legal actions or regulatory matters, either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage, will have a material adverse effect on the consolidated financial position or liquidity of BNY Mellon, although they could have a material effect on net income in a given period. BNY Mellon intends to defend itself vigorously against all of the claims asserted in these legal actions.

In view of the inherent unpredictability of litigation and regulatory matters, particularly where the damages sought are substantial or indeterminate, the investigations or proceedings are in the early stages, or the matters involve novel legal theories or a large number of parties, there is considerable uncertainty surrounding the timing or ultimate resolution of litigations and regulatory matters or the eventual loss, fines, penalties or business impact, if any, associated with each pending matter. In accordance with ASC 450 (formerly SFAS 5), BNY Mellon establishes reserves for litigation and regulatory matters when those matters present loss contingencies that both are probable and can be reasonably estimated as is the case in certain of the legal matters described. For these matters and others which are disclosed because an unfavorable outcome is reasonably possible but not probable, there may be a range of possible losses which either cannot be estimated or, to the extent a range could possibly be determined, the range would be so imprecise, uncertain or wide as to not be meaningful. BNY Mellon believes that its accruals for legal proceedings are appropriate and in the aggregate are not material to the consolidated financial position of BNY Mellon, although future accruals could have a material effect on net income in a given period.

See the Legal proceedings section in Note 18 to the Notes to Consolidated Financial Statements, which portion is incorporated by reference in response to this item.

**Item 1A. Risk Factors**

*Recent legislative actions may have a significant adverse effect on the Company's operations.*

In July 2010, President Obama signed into law the regulatory reform legislation known as the Dodd-Frank Wall Street Reform and Consumer Protection Act. This new law broadly affects the financial services industry, particularly those entities considered to be systemically important, such as bank holding companies with assets of over \$50 billion, including BNY Mellon, by establishing a framework for systemic risk oversight, creating a liquidation authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and numerous other provisions aimed at strengthening the sound operation of the financial services sector.

Among numerous other provisions of the law that could have an effect on BNY Mellon are:

A change in the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible equity. Unless special rules are adopted to mitigate the disproportionate burden on custody banks, this change likely will result in significantly higher deposit insurance assessments for banks with substantial international operations, including The Bank of New York Mellon.

The exclusion over a three year period, beginning on Jan. 1, 2013, of trust preferred securities from our Tier 1 capital.

The potential designation of BNY Mellon as a financial market utility (defined to include persons that manage or operate a multilateral system for the purpose of transferring, clearing or settling payments, securities or other transactions among financial institutions, including repurchase agreements) may subject us to increased regulation and supervision. The definition of these terms, and the relevant requirements,

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

are subject to future rulemaking.

Although we cannot predict how regulatory implementation of the law will occur, the related findings of various regulatory and commission studies, the interpretations issued as part of the rulemaking process and the final regulations that are issued with respect to various elements of the new law may cause changes that impact the profitability of our business activities and require that we change certain of our business practices, and could expose us to additional costs (including increased compliance costs). These changes may also require

BNY Mellon 103

**Table of Contents****Part II Other Information (continued)**

us to invest significant management attention and resources to make any necessary changes.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(c) The following table discloses repurchases of our common stock made in the second quarter of 2010.

*Issuer purchases of equity securities*

**Share repurchases during second quarter 2010**

<i>(common shares in thousands)</i>	Total shares repurchased	Average price per share	Total shares repurchased as part of a publicly announced plan
April 2010	83	\$ 30.95	-
May 2010	12	\$ 31.35	-
June 2010	40	\$ 26.57	-
<b>Second quarter 2010</b>	<b>135</b>	<b>\$ 29.69</b>	<b>-</b>

(a) *These shares were purchased at a purchase price of approximately \$24 million from employees, primarily in connection with the employees' payment of taxes upon the vesting of restricted stock.*

On Dec. 18, 2007, the Board of Directors of BNY Mellon authorized the repurchase of up to 35 million shares of common stock. There were no shares repurchased under this program in the second quarter of 2010.

At June 30, 2010, 33.8 million shares were available for repurchase under the December 2007 program. There is no expiration date on this repurchase program.

**Item 6. Exhibits**

Pursuant to the rules and regulations of the Securities and Exchange Commission, BNY Mellon has filed certain agreements as exhibits to this Quarterly Report on Form 10-Q. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

The list of exhibits required to be filed as exhibits to this report are listed on page 106 hereof, under [Index to Exhibits](#), which is incorporated herein by reference.



**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BANK OF NEW YORK MELLON CORPORATION

(Registrant)

Date: August 6, 2010

By: /s/ John A. Park  
John A. Park

Corporate Controller

(Duly Authorized Officer and

Principal Accounting Officer of

the Registrant)

BNY Mellon 105



**Table of Contents****Index to Exhibits**

Exhibit No.	Description	Method of Filing
1.1	Underwriting Agreement dated June 3, 2010 among The Bank of New York Mellon Corporation, Goldman, Sachs & Co., as forward purchaser, and Goldman, Sachs & Co. and Citigroup Global Markets Inc., as representatives of the underwriters listed therein.	Previously filed as Exhibit 1.1 to the Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on June 7, 2010 and incorporated herein by reference.
2.1	Amended and Restated Agreement and Plan of Merger, dated as of December 3, 2006, as amended and restated as of February 23, 2007, and as further amended and restated as of March 30, 2007, between The Bank of New York Company, Inc., Mellon Financial Corporation and The Bank of New York Mellon Corporation (the Company).	Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 2, 2007, and incorporated herein by reference.
2.2	Stock Purchase Agreement, dated as of February 1, 2010, by and between The PNC Financial Services Group, Inc. and The Bank of New York Mellon Corporation.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on February 3, 2010, and incorporated herein by reference.
3.1	Restated Certificate of Incorporation of The Bank of New York Mellon Corporation.	Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 2, 2007, and incorporated herein by reference.
3.2	Amended and Restated By-Laws of The Bank of New York Mellon Corporation, as amended February 9, 2010, effective as of July 2, 2010.	Filed herewith.
4.1	None of the instruments defining the rights of holders of long-term debt of the Company, the creation of which was disclosed in this Quarterly Report on Form 10-Q, represented long-term debt in excess of 10% of the total assets of the company as of June 30, 2010. The Company hereby agrees to furnish to the Commission, upon request, a copy of any such instrument.	N/A
10.1	Confirmation of Forward Sale Transaction dated as of June 3, 2010 between The Bank of New York Mellon Corporation and Goldman, Sachs & Co.	Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No 000-52710) as filed with the Commission on June 7, 2010 and incorporated herein by reference.

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

12.1	Computation of Ratio of Earnings to Fixed Charges.	Filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.

**Table of Contents****Index to Exhibits (continued)**

Exhibit			
No.	Description		Method of Filing
101.INS	XBRL Instance Document.		Furnished herewith.
101.SCH	XBRL Taxonomy Extension Schema Document.		Furnished herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.		Furnished herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.		Furnished herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.		Furnished herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.		Furnished herewith.

BNY Mellon 107