

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

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2013

or

Transition Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

Commission File No. 001-35651

THE BANK OF NEW YORK MELLON CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-2614959  
(I.R.S. Employer Identification No.)

One Wall Street  
New York, New York 10286  
(Address of principal executive offices)(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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

Large accelerated filer  [ X ]

Accelerated filer  [ ]

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

Smaller reporting company  [ ]

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

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

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

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THE BANK OF NEW YORK MELLON CORPORATION

Third Quarter 2013 Form 10-Q  
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The Bank of New York Mellon Corporation (and its subsidiaries)

Consolidated Financial Highlights (unaudited)

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

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Average common shares and equivalents  
outstanding (in thousands):

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

Capital ratios:

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

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

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## Consolidated Financial Highlights (unaudited) (continued)

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

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

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

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

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

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

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

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

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

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

(g) Federal Reserve System (the “Federal Reserve”) on July 2, 2013, on a fully phased-in basis. For periods prior to June 30, 2013, these ratios were estimated using our interpretation of the Federal Reserve’s Notices of Proposed Rulemaking (“NPRs”) dated June 7, 2012, on a fully phased-in basis.

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

N/A – Not available.

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## Part I - Financial Information

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

### General

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

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

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

### How we reported results

Throughout this Form 10-Q, certain measures, which are noted as "Non-GAAP financial measures," exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons using measures that relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present the net interest margin on a fully taxable equivalent ("FTE") basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See "Supplemental information - Explanation of GAAP and Non-GAAP financial measures" beginning on page 52 for a reconciliation of financial measures presented in accordance with U.S. generally accepted accounting principles ("GAAP") to adjusted Non-GAAP financial measures.

### Overview

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of Sept. 30, 2013, BNY Mellon had \$27.4 trillion in assets under custody and/or administration, and \$1.5 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

### Key third quarter 2013 and subsequent events

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

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

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

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### Sale of Newton's private client business

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

### U.S. Tax Court ruling

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

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

In July 2013, the federal banking agencies finalized rules (the "Final Capital Rules") revising the capital framework applicable to U.S. bank holding companies ("BHCs") and banks. The Final Capital Rules implement Basel III and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act" or "Dodd-Frank") for U.S. BHCs and banks (including by redefining the components of capital and establishing higher minimum percentages for applicable capital ratios) and substantially revise the agencies' general risk-based capital rules in a manner designed to make them more risk sensitive. The Final Capital Rules establish a graduated implementation schedule and will be principally phased-in by 2019. In general, the Final Capital Rules largely adhere to the rules as initially proposed in June 2012 and as summarized in the Company's 2012 Annual Report. Our estimated Basel III Tier 1 common equity ratio (Non-GAAP) calculated under the Standardized Approach and based on our interpretation of and expectations regarding the Final Capital Rules, on a fully phased-in basis, was 10.1% at Sept. 30, 2013 and 9.3% at

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

### Supplementary leverage ratio proposals

The Final Capital Rules implement, among other things, for Advanced Approaches banking organizations, including the Company, a new Basel III-based supplementary leverage ratio with a minimum of 3%, to become effective Jan. 1, 2018. In addition, the Basel Committee and the U.S. banking agencies are each independently considering potential changes to the supplementary leverage ratio that, individually or taken together, could make it substantially more restrictive. In June 2013, the Basel Committee issued a consultative document proposing revisions to the supplementary leverage ratio's denominator.

Separately, on July 9, 2013, the U.S. banking agencies proposed revisions to the supplementary leverage ratio under a notice of proposed rulemaking that would only apply to the largest U.S. BHCs and banks, including BNY Mellon. The July 9 proposal would increase the supplementary leverage requirement for affected holding companies to exceed 5%. In addition, this proposal would establish a supplementary leverage ratio "well capitalized" threshold of 6% for affected insured depository institutions under the U.S. banking agencies prompt corrective action framework, including our largest banking subsidiary, The Bank of New York Mellon.

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

Highlights of third quarter 2013 results

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

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

Highlights of the third quarter 2013 include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Fee and other revenue

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

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

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

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

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

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

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

N/M - Not meaningful.

Fee and other revenue

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

Investment services fees

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

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

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

Issuer services fees increased 4% year-over-year and 10% (unannualized) sequentially. The year-over-year increase primarily reflects higher Depositary Receipts revenue, partially offset by lower money market mutual fund balances and higher money market fee waivers in Corporate Trust. The sequential increase primarily resulted from seasonally higher Depositary Receipts revenue, partially offset by lower expense reimbursements in Corporate Trust. We continue to estimate that the run-off of high margin securitizations could reduce the Company's total annual revenue by up to one-half of 1% if the structured debt markets do not recover.

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

Treasury services fees decreased 1% both year-over-year and (unannualized) sequentially. Both decreases primarily reflect lower cash management fees.

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

#### Investment management and performance fees

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

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

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

#### Foreign exchange and other trading revenue

##### Foreign exchange and other trading revenue

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

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

exchange revenue and fixed income trading revenue is reported in the Investment Services business and the Other segment. Equity/other trading revenue is primarily reported in the Other segment.

The foreign exchange trading engaged in by the Company generates revenues, which are influenced by the volume of client transactions and the spread realized on these transactions. The level of volume and spreads is affected by market volatility, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional clients. These revenues also depend on our ability to manage the risk associated with the currency transactions we execute. A substantial majority of our foreign exchange trades are undertaken for our custody clients in transactions where BNY Mellon acts as principal, and not as an agent or broker. As a principal, we earn a profit, if any, based on our ability to risk manage the aggregate foreign currency positions that we buy and sell on a

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

We typically price negotiated trades for our custody clients at a spread over either our estimation of the current market rate for a particular currency or an agreed upon third-party benchmark. With respect to our standing instruction program, we typically assign a price derived from the daily pricing range for marketable-size foreign exchange transactions (generally more than \$1 million) executed between global financial institutions, known as the "interbank range." Using the interbank range for the given day,

we typically price purchases of currencies at or near the low end of this range and sales of currencies at or near the high end of this range. The standing instruction program Defined Spread Offering prices transactions in each pricing cycle (several times a day in the case of developed market currencies) by adding a predetermined spread to an objective market source for developed and certain emerging market currencies or to a reference rate computed by BNY Mellon for other emerging market currencies. A shift by custody clients from the standing instruction program to other trading options combined with competitive market pressures on the foreign exchange business may negatively impact our foreign exchange revenue. For the quarter ended Sept. 30, 2013, our total revenue for all types of foreign exchange trading transactions was \$154 million, or approximately 4% of our total revenue and approximately 45% of our foreign exchange revenue, resulted from foreign exchange transactions undertaken through our standing instruction program.

#### Distribution and servicing fees

Distribution and servicing fee revenue was \$43 million in the third quarter of 2013, \$48 million in the third quarter of 2012 and \$45 million in the second quarter of 2013. Both decreases were impacted by higher fee waivers. The year-over-year decrease also reflects the average impact of the stronger U.S. dollar.

#### Financing-related fees

Financing-related fees, which are primarily reported in the Other segment, include capital markets fees, loan commitment fees and credit-related fees. Financing-related fees were \$44 million in the third quarter of 2013, \$46 million in the third quarter of 2012 and \$44 million in the second quarter of 2013.

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## Investment and other income

## Investment and other income

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

Investment and other income, which is primarily reported in the Other segment and Investment Management business, includes revenue from equity investments, insurance contracts, asset-related gains, expense reimbursements from the joint venture, lease residual gains, seed capital gains, transitional services agreements, gains and losses on private equity investments, and other income and loss. Asset-related gains include loan, real estate and other asset dispositions. Expense reimbursements from the joint venture relate to expenses incurred by BNY Mellon on behalf of the joint venture. Transitional services agreements primarily relate to the Shareowner Services business, which was sold on Dec. 31, 2011. Other income (loss) primarily includes foreign currency remeasurement gain (loss), other investments and various miscellaneous revenues. Investment and other income increased \$11 million compared with the third quarter of 2012 and decreased by \$134 million compared with the second quarter of 2013. The sequential decrease primarily reflects a gain related to an equity investment in the second quarter of 2013, partially offset by higher asset-related gains related to the sale of Newton's Private Client business.

## Net securities gains

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

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

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

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

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Net interest revenue

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

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

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

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

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

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

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



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

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

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

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|  |           |      |           |      |
|--|-----------|------|-----------|------|
| Temporary equity   |           |      |           |      |
| Redeemable noncontrolling interests                      | 187       |      | 94        |      |
| Permanent equity   |           |      |           |      |
| Total BNY Mellon shareholders' equity                    | 35,869    |      | 34,348    |      |
| Noncontrolling interests                                 | 826       |      | 709       |      |
| Total permanent equity                                   | 36,695    |      | 35,057    |      |
| Total liabilities, temporary equity and permanent equity | \$337,651 |      | \$308,459 |      |
| Net interest margin (FTE)                                |           | 1.14 | %         | 1.25 |

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

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

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

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

Staff expense

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

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

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

#### Non-staff expense

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

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

The financial services industry has seen a continuing increase in the level of litigation and enforcement activity. As a result, we anticipate our legal and litigation costs to continue at elevated levels.

For additional information on our legal proceedings, see Note 18 of the Notes to Consolidated Financial Statements.

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

Noninterest expense in the first nine months of 2013 decreased \$79 million, or 1%, compared with the first nine months of 2012. The decrease primarily reflects lower litigation charges, partially offset by higher staff, software, net occupancy and business development expenses and the impact of the Meriten acquisition.

#### Operational Excellence Initiatives update

| Expense initiatives (pre-tax)<br>(dollar amounts in millions) | Program savings |       |       |       | Original annualized<br>targeted savings by<br>the end of 2013 (a) |
|---|-----------------|-------|-------|-------|---|
|   | FY12            | 1Q13  | 2Q13  | 3Q13  |   |
| Business operations   | \$238           | \$84  | \$93  | \$103 | \$310 - \$320   |
| Technology  | 82              | 27    | 30    | 36    | \$105 - \$110   |
| Corporate services  | 77              | 26    | 27    | 31    | \$85 - \$90   |
| Gross savings (b)   | \$397           | \$137 | \$150 | \$170 | \$500 - \$520   |
| Incremental program expenses to achieve goals (c)             | \$88            | \$16  | \$11  | \$11  | \$70 - \$90   |

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

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

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

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

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

- Enhanced procurement process to reduce operating expenses.

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

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

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

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

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## Income taxes

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

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

## Review of businesses

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

## Business accounting principles

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

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

Business results are subject to reclassification whenever improvements are made in the measurement principles or when organizational changes are made. Internal crediting rates for deposits are regularly updated to reflect the value of deposit balances and distribution of overall interest revenue. In the third quarter of 2013, lower internal crediting rates were applied to deposits in the Investment Management and Investment Services businesses. There was no impact to our consolidated financial results.

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

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

| Market indices                | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 3Q13 vs. |      | Year-to-date |      | YTD13 vs. |    |   |
|-------------------------------|------|------|------|------|------|----------|------|--------------|------|-----------|----|---|
|                               |      |      |      |      |      | 3Q12     | 2Q13 | 2013         | 2012 | YTD12     | %  |   |
| S&P 500 Index (a)             | 1441 | 1426 | 1569 | 1606 | 1682 | 17       | %5   | %            | 1682 | 1441      | 17 | % |
| S&P 500 Index – daily average | 1400 | 1419 | 1513 | 1609 | 1674 | 20       | 4    |              | 1600 | 1366      | 17 |   |



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

(a) Period end.

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

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Fee revenue in Investment Management, and to a lesser extent in Investment Services, is impacted by the value of market indices. At Sept. 30, 2013, using the Standard & Poor's ("S&P") 500 Index as a proxy for the global equity markets, we estimate that a 100-point change in the value of the S&P 500 Index

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

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

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

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the quarter ended June 30, 2013<br>(dollar amounts in millions) | Investment<br>Management |     | Investment<br>Services |   | Other    |   | Consolidated |     |
|---|--------------------------|-----|------------------------|---|----------|---|--------------|-----|
| Fee and other revenue   | \$922                    | (a) | \$1,971                |   | \$320    |   | \$3,213      | (a) |
| Net interest revenue  | 63                       |     | 633                    |   | 61       |   | 757          |     |
| Total revenue   | 985                      |     | 2,604                  |   | 381      |   | 3,970        |     |
| Provision for credit losses   | —                        |     | —                      |   | (19)     | ) | (19)         | )   |
| Noninterest expense   | 713                      |     | 1,880                  |   | 229      |   | 2,822        |     |
| Income before taxes   | \$272                    | (a) | \$724                  |   | \$171    |   | \$1,167      | (a) |
| Pre-tax operating margin (b)  | 28                       | %   | 28                     | % | N/M      |   | 29           | %   |
| Average assets  | \$37,953                 |     | \$244,803              |   | \$54,699 |   | \$337,455    |     |
| Excluding amortization of intangible assets:                        |                          |     |                        |   |          |   |              |     |
| Noninterest expense   | \$674                    |     | \$1,826                |   | \$229    |   | \$2,729      |     |
| Income before taxes   | 311                      | (a) | 778                    |   | 171      |   | 1,260        | (a) |
| Pre-tax operating margin (b)  | 31                       | %   | 30                     | % | N/M      |   | 32           | %   |

Total fee and other revenue includes income from consolidated investment management funds of \$65 million, net (a) of noncontrolling interests of \$39 million, for a net impact of \$26 million. Income before taxes includes noncontrolling interests of \$39 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

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

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

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

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

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

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

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

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Investment Management business

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

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

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

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

(a) “Supplemental information - Explanation of GAAP and Non-GAAP financial measures” beginning on page 52. Additionally, other revenue includes asset servicing and treasury services revenue.

(b) Distribution and servicing expense is netted with the distribution and servicing revenue for the purpose of this calculation of pre-tax operating margin. Distribution and servicing expense totaled \$107 million, \$106 million, \$104 million, \$110 million, \$107 million, \$321 million and \$309 million for each of the periods presented above, respectively.

N/M - Not meaningful.

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

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

(b) Includes liability-driven investments.

## Business description

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

## Review of financial results

Investment management and performance fees are dependent on the overall level and mix of AUM and the management fees expressed in basis points (one-hundredth of one percent) charged for managing those assets. Assets under management were \$1.53 trillion at Sept. 30, 2013 compared with \$1.36 trillion at Sept. 30, 2012 and \$1.43 trillion at June 30, 2013. Both increases primarily resulted from net new business and higher market values. Net long-term inflows were \$32 billion in the third quarter of 2013 and benefited from liability driven investments, alternative investments and active equity and index funds. Net short-term inflows were \$13 billion in the third quarter of 2013.

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

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



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

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

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

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

In the third quarter of 2013, 35% of investment management fees in the Investment Management business were generated from managed mutual fund fees. These fees are based on the daily average net assets of each fund and the management fee paid by that fund. Managed mutual fund fee revenue was \$289 million in the third quarter of 2013 compared with \$283 million in the third quarter of 2012 and \$295 million in the second quarter of 2013. The increase compared with the third quarter of 2012 primarily resulted from higher equity market values and net new business. The decrease compared with the second quarter of 2013 primarily resulted from higher money market fee waivers.

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

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

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

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

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

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Investment Services business

| (dollar amounts in millions, unless otherwise noted)        |       |       |       |       |       | 3Q13 vs. |       | Year-to-date |         | YTD13 vs. |
|---|-------|-------|-------|-------|-------|----------|-------|--------------|---------|-----------|
|   | 3Q12  | 4Q12  | 1Q13  | 2Q13  | 3Q13  | 3Q12     | 2Q13  | 2013         | 2012    | YTD13     |
| Revenue:  |       |       |       |       |       |          |       |              |         |           |
| Investment services fees:                                   |       |       |       |       |       |          |       |              |         |           |
| Asset servicing   | \$913 | \$916 | \$943 | \$961 | \$939 | 3        | (2 )  | \$2,843      | \$2,747 | 3         |
| Issuer services   | 310   | 213   | 236   | 294   | 321   | 4        | 9     | 851          | 836     | 2         |
| Clearing services   | 287   | 294   | 304   | 321   | 315   | 10       | (2 )  | 940          | 899     | 5         |
| Treasury services   | 131   | 136   | 137   | 135   | 135   | 3        | —     | 407          | 391     | 4         |
| Total investment services fees                              | 1,641 | 1,559 | 1,620 | 1,711 | 1,710 | 4        | —     | 5,041        | 4,873   | 3         |
| Foreign exchange and other trading revenue                  | 158   | 128   | 172   | 194   | 173   | 9        | (11 ) | 539          | 513     | 5         |
| Other (a)   | 77    | 75    | 70    | 66    | 64    | (17 )    | (3 )  | 200          | 220     | (9        |
| Total fee and other revenue (a)                             | 1,876 | 1,762 | 1,862 | 1,971 | 1,947 | 4        | (1 )  | 5,780        | 5,606   | 3         |
| Net interest revenue  | 608   | 583   | 653   | 633   | 619   | 2        | (2 )  | 1,905        | 1,857   | 3         |
| Total revenue   | 2,484 | 2,345 | 2,515 | 2,604 | 2,566 | 3        | (1 )  | 7,685        | 7,463   | 3         |
| Provision for credit losses                                 | (4 )  | —     | 1     | —     | —     | N/M      | N/M   | 1            | (2 )    | N/M       |
| Noninterest expense (ex. amortization of intangible assets) | 1,732 | 1,769 | 1,796 | 1,826 | 1,766 | 2        | (3 )  | 5,388        | 5,611   | (4        |
| Income before taxes (ex. amortization of intangible assets) | 756   | 576   | 718   | 778   | 800   | 6        | 3     | 2,296        | 1,854   | 24        |
| Amortization of intangible assets                           | 47    | 48    | 47    | 54    | 46    | (2 )     | (15 ) | 147          | 144     | 2         |
| Income before taxes   | \$709 | \$528 | \$671 | \$724 | \$754 | 6        | %4    | % \$2,149    | \$1,710 | 26        |
|   | 29    | %23   | %27   | %28   | %29   | %        |       | 28           | %23     | %         |

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

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

## Broker-Dealer:

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

(a) Total fee and other revenue includes investment management fees and distribution and servicing revenue.

(b) Noninterest expense excludes amortization of intangible assets, support agreement charges and litigation expense.

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

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

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

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

## Business description

Our Investment Services business provides global custody and related services, broker-dealer services, collateral services, alternative investment services, corporate trust and depositary receipt services, as well as clearing services and global payment/working capital solutions to institutional clients.

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

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

We are one of the leading global securities servicing providers with \$27.4 trillion of assets under custody and/or administration at Sept. 30, 2013. We are the largest custodian for U.S. corporate and public pension plans and we service 46% of the top 50 endowments. We are a leading custodian in the UK

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

BNY Mellon is a leader in both global securities and U.S. Government securities clearance. We clear and settle equity and fixed income transactions in over 100 markets and handle most of the transactions cleared through the Federal Reserve Bank of New York for 17 of the 21 primary dealers. We are a leader in servicing tri-party repo collateral with approximately \$2 trillion globally. We currently service approximately \$1.3 trillion of the \$1.6 trillion tri-party repo market in the U.S.

BNY Mellon offers tri-party agent services to dealers and cash investors active in the tri-party repurchase, or tri-party repo, market. We currently have an approximately 83% market share of the U.S. tri-party repo market. As a tri-party repo agent, we facilitate settlement between dealers (cash borrowers) and investors (cash lenders). Our involvement in a transaction commences after a dealer and a cash investor agree to a tri-party repo trade and send instructions to us. We maintain custody of the collateral (the subject securities of the repo) and execute the payment and delivery instructions agreed to and provided by the principals.

BNY Mellon is working to significantly reduce the risk associated with the secured intraday credit we provide with respect to the tri-party repo market. BNY Mellon has implemented several measures in that regard, including reducing the amount of time we extend intraday credit, implementing three-way trade confirmations, and automating the way dealers can substitute collateral in their tri-party repo trades. Additionally, in 2013, we have limited the eligibility for intraday credit associated with tri-party repo transactions to certain more liquid asset classes that will result in a

reduction of exposures secured by less liquid forms of collateral by dealers. These efforts are consistent with the recommendations of the Tri-Party Repo Infrastructure Reform Task Force that was sponsored by the Payments Risk Committee of the Federal Reserve Bank of New York and included representatives from a diverse group of market participants, including BNY Mellon. We anticipate that the combination of these measures will reduce risks substantially in our tri-party repo activity in the

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near term and, together with technology enhancements currently in development, will achieve the practical elimination of intraday credit in this activity by the end of 2014.

Since May 2010, the Federal Reserve Bank of New York has released monthly reports on the tri-party repo market, including information on aggregate volumes of collateral used in all tri-party repo transactions by asset class, concentrations, and margin levels, which are available at [http://www.newyorkfed.org/banking/tpr\\_infr\\_reform.html](http://www.newyorkfed.org/banking/tpr_infr_reform.html).

In 2012, we formed Global Collateral Services which serves broker-dealers and institutional investors facing expanding collateral management needs as a result of current and emerging regulatory and market requirements. Global Collateral Services brings together BNY Mellon's global capabilities in segregating, optimizing, financing and transforming collateral on behalf of clients, including its market leading broker-dealer collateral management, securities lending, collateral financing, liquidity and derivatives services teams.

In securities lending, we are one of the largest lenders of U.S. Treasury securities and depositary receipts and service a lending pool of approximately \$3 trillion in 30 markets.

We serve as depositary for 1,350 sponsored American and global depositary receipt programs at Sept. 30, 2013, acting in partnership with leading companies from 64 countries - an estimated 61% global market share.

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

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

BNY Mellon acts as trustee and document custodian for certain mortgage-backed security ("MBS") securitization trusts. The role of trustee for MBS securitizations is limited; our primary role as trustee is to calculate and distribute monthly bond payments to bondholders. As a document custodian, we hold the mortgage, note, and related documents provided

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

#### Review of financial results

AUC/A at Sept. 30, 2013 were \$27.4 trillion, an increase of 4% from \$26.4 trillion at Sept. 30, 2012 and 5% from \$26.2 trillion at June 30, 2013. The year-over-year increase was primarily driven by higher market values and net new business. The sequential increase primarily reflects higher market values and the positive impact of foreign currency rates. AUC/A were comprised of 35% equity securities and 65% fixed income securities at Sept. 30, 2013 and 34% equity securities and 66% fixed income securities at June 30, 2013.

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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## Other segment

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

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

## Review of financial results

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

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

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

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

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

expenses were primarily offset by higher staff expenses.

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

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

The provision for credit losses was a credit of \$42 million in the first nine months of 2013 compared with a credit of \$17 million in the first nine months of 2012. The decrease in the provision was primarily driven by the continued improvement in the credit quality of the loan portfolio. Noninterest expenses (excluding M&I and restructuring charges) increased \$25 million, reflecting higher staff and net occupancy expenses, as well as higher business development expenses related to our corporate branding initiatives.

#### Critical accounting estimates

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements in our 2012 Annual Report. Our critical accounting estimates are those related to the allowance for loan losses and allowance for lending-related commitments, fair value of financial instruments and derivatives, other-than-temporary impairment (“OTTI”), goodwill and other intangibles, and pension accounting, as referenced below.

| Critical policy   | Reference  |
|---|--|
| Allowance for loan losses and allowance for lending-related commitments | 2012 Annual Report, pages 34 and 35. This policy is also disclosed in the “Asset quality and allowance for credit loss” section of this Form 10-Q. |
| Fair value of financial instruments and derivatives OTTI                | 2012 Annual Report, pages 35 - 37.<br>2012 Annual Report, page 37.   |
| Goodwill and other intangibles  | 2012 Annual Report, pages 37 and 38.   |
| Pension accounting  | 2012 Annual Report, pages 38 - 40.   |

#### Consolidated balance sheet review

At Sept. 30, 2013, total assets were \$372 billion compared with \$359 billion at Dec. 31, 2012. Total assets averaged \$342 billion in the third quarter of 2013 compared with \$319 billion in the third quarter of 2012 and \$337 billion in the second quarter of 2013. Fluctuations in the average total assets were primarily driven by the level of client deposits. Deposits totaled \$256 billion at Sept. 30, 2013, and \$246 billion at Dec. 31, 2012. Total deposits averaged \$226 billion in the third quarter of 2013, \$208 billion in the third quarter of 2012 and \$222 billion in the second quarter of 2013. At Sept. 30, 2013, total interest-bearing deposits were 56% of total interest-earning assets compared with 52% at Dec. 31, 2012.

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

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

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

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

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

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

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

Exposure in Ireland, Italy, Spain, Portugal and Greece

The following tables present our on- and off-balance sheet exposure in Ireland, Italy and Spain at Sept. 30, 2013 and Dec. 31, 2012. We have provided expanded disclosure on these countries as they have experienced particular market focus on credit quality and are countries experiencing economic concerns. Where appropriate, we are offsetting the risk associated with the gross exposure in these countries with collateral that has been pledged, which primarily consists of cash or marketable securities, or by transferring the risk to a third-party guarantor in another country.

BNY Mellon has a limited economic interest in the performance of assets of consolidated investment management funds, and therefore they are excluded

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

At Sept. 30, 2013, BNY Mellon had exposure of less than \$1 million in Portugal and in Greece. At Dec. 31, 2012, BNY Mellon had exposure of less than \$1 million in Portugal and no exposure in Greece.

Additionally, BNY Mellon had no sovereign exposure to the countries disclosed below at either Sept. 30, 2013 or Dec. 31, 2012.

Our exposure in Ireland is principally related to Irish-domiciled investment funds. Servicing provided to these funds and fund families may result in overdraft exposure. See "Risk management" in our 2012 Annual Report for additional information on how our exposures are managed. Exposure in the tables below reflect the country of operations and risk of the immediate counterparty.

On- and off-balance sheet exposure at Sept. 30, 2013

| (in millions)  | Ireland | Italy | Spain | Total   |
|--|---------|-------|-------|---------|
| On-balance sheet exposure  |         |       |       |         |
| Gross:   |         |       |       |         |
| Interest-bearing deposits with banks (a)                           | \$105   | \$456 | \$203 | \$764   |
| Investment securities (primarily European Floating Rate Notes) (b) | 167     | 112   | —     | 279     |
| Loans and leases (c)   | 781     | 8     | 6     | 795     |
| Trading assets (d)   | 69      | 23    | 9     | 101     |
| Total gross on-balance sheet exposure                              | 1,122   | 599   | 218   | 1,939   |
| Less:  |         |       |       |         |
| Collateral   | 87      | 23    | 6     | 116     |
| Guarantees   | —       | 2     | 1     | 3       |
| Total collateral and guarantees                                    | 87      | 25    | 7     | 119     |
| Total net on-balance sheet exposure                                | \$1,035 | \$574 | \$211 | \$1,820 |
| Off-balance sheet exposure   |         |       |       |         |
| Gross:   |         |       |       |         |
| Lending-related commitments (e)                                    | \$111   | \$—   | \$—   | \$111   |
| Letters of credit (f)  | 74      | 4     | 14    | 92      |
| Total gross off-balance sheet exposure                             | 185     | 4     | 14    | 203     |
| Less:  |         |       |       |         |
| Collateral   | 100     | —     | 14    | 114     |
| Total net off-balance sheet exposure                               | \$85    | \$4   | \$—   | \$89    |
| Total exposure:  |         |       |       |         |
| Total gross on- and off-balance sheet exposure                     | \$1,307 | \$603 | \$232 | \$2,142 |
| Less: Total collateral and guarantees                              | 187     | 25    | 21    | 233     |
| Total net on- and off-balance sheet exposure                       | \$1,120 | \$578 | \$211 | \$1,909 |

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

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

(c)



Loans and leases include \$701 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a \$69 million commercial lease to a company located in Ireland, which was fully collateralized by U.S. Treasuries, \$11 million of loans to financial institutions located in Ireland, which were collateralized by \$10 million of marketable securities, \$6 million of overdrafts to financial institutions located in Italy, \$5 million of overdrafts to financial institutions located in Spain and \$3 million of leases to airline manufacturing companies located in Italy and Spain, which are under joint and several guarantee arrangements with guarantors outside of the Eurozone. There is no impairment associated with these loans and leases. Overdrafts occur on a daily basis in our Investment Services businesses and are generally repaid within two business days.

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

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

Represents \$72 million of letters of credit extended to an insurance company in Ireland, collateralized by \$65 million of marketable securities, a \$2 million letter of credit to an oil and gas company in Ireland, a \$4 million letter (f) of credit extended to a financial institution in Italy and a \$14 million letter of credit extended to an insurance company in Spain, fully collateralized by marketable securities.

## On- and off-balance sheet exposure at Dec. 31, 2012

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

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

(b) Represents \$266 million, fair value, of residential mortgage-backed securities located in Ireland and Italy, of which 49% were investment grade, \$25 million, fair value, of investment grade asset-backed CLOs located in Ireland, and \$3 million, fair value, of money market fund investments located in Ireland.

(c) Loans and leases include \$97 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a \$67 million commercial lease to an Irish company, which was fully collateralized by U.S. Treasuries, a \$2 million loan to a security company located in Ireland, a \$5 million overdraft to a financial institution located in Italy, a \$2 million custody overdraft to financial institutions located in Spain and \$3 million of leases to airline manufacturing companies located in Italy and Spain, which are under joint and several guarantee arrangements with guarantors outside of the Eurozone. There is no impairment associated with these loans and leases. Overdrafts occur on a daily basis in our Investment Services businesses and are generally repaid within two business days. The overdrafts in Italy and Spain have been repaid.

(d) Trading assets represent over-the-counter mark-to-market on foreign exchange and interest rate receivables, net of master netting agreements. Trading assets include \$48 million of receivables primarily due from Irish-domiciled investment funds and \$54 million of receivables due from financial institutions in Italy and Spain. Cash collateral on the trading assets totaled \$7 million in Ireland, \$38 million in Italy and \$6 million in Spain.

(e) Lending-related commitments include \$100 million to an insurance company, collateralized by \$25 million of marketable securities, and \$1 million to an oil and gas company, fully collateralized by receivables.

(f) Represents \$72 million of letters of credit extended to an insurance company in Ireland, collateralized by \$65 million of marketable securities, a \$2 million letter of credit to an oil and gas company in Ireland, a \$4 million letter of credit extended to a financial institution in Italy and a \$14 million letter of credit extended to an insurance company in Spain, fully collateralized by marketable securities.

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Investment securities

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

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

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

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

(a) Amortized cost before impairments.

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

These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these (c) RMBS would receive higher credit ratings if these ratings incorporated, as additional credit enhancement, the difference between the written-down amortized cost and the current face amount of each of these securities.

(d) Includes RMBS, commercial MBS and other securities. Primarily comprised of exposure to UK and Netherlands.

(e) Primarily comprised of exposure to Canada, UK and Netherlands.

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

(g)

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

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

At Sept. 30, 2013, the total investment securities portfolio had a net unrealized pre-tax gain of \$723 million compared with \$2.4 billion at Dec. 31, 2012. The decline in the valuation of the investment securities portfolio was primarily driven by an increase in long-term interest rates. The unrealized

net of tax gain on our investment securities available-for-sale portfolio included in accumulated other comprehensive income was \$456 million at Sept. 30, 2013, compared with \$1.3 billion at Dec. 31, 2012.

At Sept. 30, 2013 and Dec. 31, 2012, 89% of the securities in our portfolio were rated AAA/AA-.

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

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

Net premium amortization and discount accretion of investment securities

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

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

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

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

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

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

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

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

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

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

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

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

(a) 62% of these securities are in the AAA to AA- ratings category.

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

## Loans

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

At Sept. 30, 2013, total exposures were \$90.4 billion, an increase of 6% from \$85.3 billion at Dec. 31, 2012. The increase in total exposure primarily reflects higher margin loans and loans in the financial institutions portfolio, and an increase in unfunded commitments in the commercial loan portfolio.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios made up 56% of our total lending exposure at Sept. 30, 2013 and 55% at Dec. 31, 2012. Additionally, a substantial portion of our overdrafts relate to financial institutions and commercial customers.

## Financial institutions

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

| Financial institutions portfolio exposure (dollar amounts in billions) | Sept. 30, 2013 |                      |                |              |             | Dec. 31, 2012 |                      |                |
|--|----------------|----------------------|----------------|--------------|-------------|---------------|----------------------|----------------|
|  | Loans          | Unfunded commitments | Total exposure | % Inv. grade | % due <1 yr | Loans         | Unfunded commitments | Total exposure |
| Banks  | \$8.3          | \$2.0                | \$10.3         | 84           | % 92        | % \$5.6       | \$2.0                | \$7.6          |
| Asset managers   | 1.2            | 4.0                  | 5.2            | 97           | 73          | 1.1           | 3.8                  | 4.9            |
| Insurance  | 0.1            | 4.3                  | 4.4            | 99           | 26          | 0.1           | 4.3                  | 4.4            |
| Securities industry  | 2.5            | 1.5                  | 4.0            | 96           | 95          | 4.2           | 2.1                  | 6.3            |
| Government   | 0.4            | 3.0                  | 3.4            | 97           | 27          | —             | 2.1                  | 2.1            |
| Other  | 0.2            | 1.2                  | 1.4            | 95           | 53          | 0.3           | 1.4                  | 1.7            |
| Total  | \$12.7         | \$16.0               | \$28.7         | 92           | % 69        | % \$11.3      | \$15.7               | \$27.0         |



The financial institutions portfolio exposure was \$28.7 billion at Sept. 30, 2013 compared with \$27.0 billion at Dec. 31, 2012. The increase primarily reflects higher exposure to banks driven by a higher level of trade finance loans.

Financial institution exposures are high quality, with 92% of the exposures meeting the investment grade equivalent criteria of our internal credit rating classification at Sept. 30, 2013. Each customer is assigned an internal credit rating, which is mapped to an equivalent external rating agency grade based upon a number of dimensions which are continually

evaluated and may change over time. The exposure to financial institutions is generally short-term. Of these exposures, 69% expire within one year, and 33% expire within 90 days. In addition, 35% of the financial institutions exposure is secured. For example, securities industry and asset managers often borrow against marketable securities held in custody.

For ratings of non-U.S. counterparties, as a conservative measure, our internal credit rating is generally capped at a rating equivalent to the sovereign rating of the country where the counterparty resides regardless of the internal credit

rating assigned to the counterparty or the underlying collateral.

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

The asset manager portfolio exposures are high- quality, with 97% of the exposures meeting our investment grade equivalent ratings criteria as of Sept. 30, 2013. These exposures are generally short-term liquidity facilities, with the vast majority to regulated mutual funds.

## Commercial

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

| Commercial portfolio exposure<br>(dollar amounts in billions) | Sept. 30, 2013 |                      |                |              |             | Dec. 31, 2012 |                      |                |  |
|---|----------------|----------------------|----------------|--------------|-------------|---------------|----------------------|----------------|--|
|   | Loans          | Unfunded commitments | Total exposure | % Inv. grade | % due <1 yr | Loans         | Unfunded commitments | Total exposure |  |
| Energy and utilities  | \$0.7          | \$ 6.1               | \$ 6.8         | 98           | % 16        | % \$0.5       | \$ 5.5               | \$ 6.0         |  |
| Services and other  | 0.6            | 6.1                  | 6.7            | 94           | 16          | 0.5           | 5.6                  | 6.1            |  |
| Manufacturing   | 0.3            | 5.9                  | 6.2            | 90           | 9           | 0.3           | 5.6                  | 5.9            |  |
| Media and telecom   | —              | 1.8                  | 1.8            | 94           | 2           | 0.1           | 1.6                  | 1.7            |  |
| Total   | \$1.6          | \$ 19.9              | \$ 21.5        | 94           | % 13        | % \$1.4       | \$ 18.3              | \$ 19.7        |  |

The commercial portfolio exposure increased 9% to \$21.5 billion at Sept. 30, 2013, from \$19.7 billion at Dec. 31, 2012, primarily reflecting an increase in exposure to the energy and utilities and the services and other portfolios.

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

### Investment grade percentage of the portfolios

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

Our credit strategy is to focus on investment grade names to support cross-selling opportunities and avoid single name/industry concentrations and our goal is to maintain a predominantly investment grade loan portfolio. The execution of our strategy has resulted in 92% of our financial institutions portfolio and 94% of our commercial portfolio rated as investment grade at Sept. 30, 2013.

### Wealth management loans and mortgages

Our Wealth management exposure was \$11.2 billion at Sept. 30, 2013 compared with \$10.6 billion at Dec. 31, 2012. Wealth management loans and mortgages are primarily comprised of loans to high-net-worth

individuals, which are secured by marketable securities and/or residential property. Wealth management mortgages are primarily interest-only adjustable rate mortgages with an average loan to value ratio of 64% at origination. In the wealth management portfolio, less than 1% of the mortgages were past due at Sept. 30, 2013.

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

#### Commercial real estate

Our income producing commercial real estate facilities are focused on experienced owners and are structured with moderate leverage based on existing cash flows. Our commercial real estate lending activities also include construction and renovation facilities. Our client base consists of experienced developers and long-term holders of real estate assets. Loans are approved on the basis of existing or projected cash flows, and supported by appraisals and knowledge of local market conditions. Development loans are structured with moderate leverage, and in many instances, involve some level of recourse to the developer. Our commercial real estate exposure totaled \$4.1 billion at Sept. 30, 2013 compared with \$3.6 billion at Dec. 31, 2012.

At Sept. 30, 2013, 59% of our commercial real estate portfolio is secured. The secured portfolio is diverse by project type, with 52% secured by residential buildings, 16% secured by office buildings, 12% secured by retail properties, and 20% secured by other categories. Approximately 97% of the unsecured portfolio is comprised of investment grade real estate investment trusts ("REITs") under revolving credit agreements.

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

#### Lease financings

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

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

At Sept. 30, 2013, our \$170 million of exposure to the airline industry consisted of \$68 million to major U.S. carriers, \$80 million to foreign airlines and \$22 million to U.S. regional airlines.

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

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

#### Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled \$1.4 billion at Sept. 30, 2013, compared with \$1.6 billion at Dec. 31, 2012. Included in this portfolio at Sept. 30, 2013 are \$434 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of Sept. 30, 2013, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination and 22% of the serviced loan balance was at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, the tri-state area (New York, New Jersey and Connecticut) and Maryland.

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

#### Overdrafts

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

#### Other loans

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

#### Margin loans

Margin loans are collateralized with marketable securities and borrowers are required to maintain a daily collateral margin in excess of 100% of the value of the loan. Margin loans included \$6.2 billion of loans at Sept. 30, 2013 and \$5.1 billion at Dec. 31, 2012 related to a term loan program that offers fully collateralized loans to broker-dealers.

#### Matter related to Sentinel

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

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

#### Asset quality and allowance for credit losses

Over the past several years, we have improved our risk profile through greater focus on clients who are active users of our non-credit services, de-

emphasizing broad-based loan growth. Our primary exposure to the credit risk of a customer consists of funded loans, unfunded formal contractual commitments to lend, standby letters of credit and overdrafts associated with our custody and securities clearance businesses.

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

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

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

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

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

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

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

We had \$15.1 billion of secured margin loans on our balance sheet at Sept. 30, 2013 compared with \$13.4 billion at Dec. 31, 2012 and \$13.0 billion at Sept. 30, 2012. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to them. As a result, we believe that the

ratio of total allowance for credit losses as a percentage of non-margin loans is a more appropriate metric to measure the adequacy of the reserve.

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

We utilize a quantitative methodology and qualitative framework for determining the allowance for loan losses and the allowance for lending-related commitments. Within this qualitative framework, management applies judgment when assessing internal risk factors and environmental factors to compute an additional allowance for each component of the loan portfolio.

The three elements of the allowance for loan losses and the allowance for lending-related commitments include the qualitative allowance framework. The three elements are:

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

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

The second element, higher risk-rated credits and pass-rated credits, is based on our probable loss model. All borrowers are assigned to pools based on their internal credit rating. The probable loss inherent in each loan in a pool incorporates the borrower's credit rating, loss given default rating and maturity. The loss given default incorporates a recovery expectation. The borrower's probability of default is derived from the associated credit rating. Borrower ratings are reviewed at least annually and are periodically mapped to third-party databases,

including rating agency and default and recovery databases, to ensure ongoing consistency and validity. Higher risk-rated credits are reviewed quarterly. All loans over \$1 million are individually analyzed before being assigned a credit rating.

The third element, the allowance for residential mortgage loans, is determined by segregating six mortgage pools into delinquency periods ranging from current through foreclosure. Each of these delinquency periods is assigned a probability of default. A specific loss given default is assigned for each mortgage pool. All residential mortgage pools, except home equity lines of credit, are assigned a probability of default and loss given default based on five years of default and loss data derived from our residential mortgage portfolio. For each pool, the inherent loss is calculated using the above factors. The resulting probable loss factor (the probability of default multiplied by the loss given default) is applied against the loan balance to determine the allowance held for each pool. For home equity lines of credit, probability of default and loss given default are based on external data from third party databases due to the small size of the portfolio and insufficient internal data.

The qualitative framework is used to determine an additional allowance for each portfolio based on the factors below:

Internal risk factors:

- Nonperforming loans to total non-margin loans;
- Criticized assets to total loans and lending-related commitments;



Ratings volatility;  
Borrower concentration; and  
Significant concentration in high risk industries.

Environmental risk factors:

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

The objective of the qualitative framework is to capture incurred losses that may not have been fully captured in the quantitative reserve, which is based primarily on historical data. Management determines the qualitative allowance each period based on judgment informed by consideration of internal and external risk factors. Once determined in the

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aggregate, our qualitative allowance is then allocated to each of our loan classes based on the respective classes' quantitative allowance balances with the allocations adjusted, when necessary, for class specific risk factors.

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

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

Our consideration of these factors has remained consistent for the quarter ended Sept. 30, 2013. Additionally, the qualitative allowance as a percentage of the total allowance was unchanged from June 30, 2013 to Sept. 30, 2013.

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

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

| Allocation of allowance     | Sept. 30, 2013 | June 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30, 2012 |   |
|-----------------------------|----------------|------------------|------------------|----------------|---|
| Commercial                  | 27             | % 28             | % 27             | % 22           | % |
| Other residential mortgages | 21             | 22               | 23               | 31             |   |
| Foreign                     | 14             | 13               | 12               | 12             |   |
| Lease financing             | 12             | 12               | 13               | 12             |   |
| Financial institutions      | 12             | 10               | 9                | 8              |   |
| Commercial real estate      | 9              | 9                | 8                | 8              |   |
| Wealth management (a)       | 5              | 6                | 8                | 7              |   |
| Total                       | 100            | % 100            | % 100            | % 100          | % |

(a) Includes the allowance for wealth management mortgages.

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

The credit rating assigned to each credit is a significant variable in determining the allowance. If such credits were rated one grade better, the allowance would have decreased by \$56 million, while if each credit were rated one grade worse, the allowance would have increased by \$91 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by \$52 million, while if the loss given default were one rating better, the allowance would have decreased by \$42 million. For impaired credits, if the net carrying value of the loans was 10% higher or lower, the allowance would have decreased or increased by \$1 million, respectively.

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## Nonperforming assets

The following table presents the distribution of nonperforming assets.

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

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

## Nonperforming assets quarterly activity

| (in millions)                          | Sept. 30, 2013 | June 30,<br>2013 | Dec. 31, 2012 |   |
|--|----------------|------------------|---------------|---|
| Balance at beginning of period         | \$ 204         | \$ 234           | \$ 274        |   |
| Additions                              | 7              | 9                | 12            |   |
| Return to accrual status               | (8)            | )(11             | )(16          | ) |
| Charge-offs                            | (2)            | )(3              | )(3           | ) |
| Paydowns/sales                         | (28)           | )(24             | )(16          | ) |
| Transferred to other real estate owned | (1)            | )(1              | )(2           | ) |
| Balance at end of period               | \$ 172         | \$ 204           | \$ 249        |   |

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

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

See Note 5 of the Notes to Consolidated Financial Statements for additional information on our past due loans. See "Nonperforming assets" in Note 1 of the Notes to Consolidated Financial Statements in our 2012 Annual Report for our

policy for placing loans on nonaccrual status.

#### Deposits

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

Noninterest-bearing deposits were \$87.3 billion at Sept. 30, 2013 compared with \$93.0 billion at Dec. 31, 2012. Interest-bearing deposits were \$168.3 billion at Sept. 30, 2013 compared with \$153.1 billion at Dec. 31, 2012.

#### Short-term borrowings

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

See "Liquidity and dividends" below for a discussion of long-term debt and liquidity metrics that we monitor.

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

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Federal funds purchased and securities sold under repurchase agreements

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

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

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

Payables to customers and broker-dealers

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

The weighted-average rate is calculated based on, and is applied to, the average interest-bearing payables to (a) customers and broker-dealers, which were \$8,659 million in the third quarter of 2013, \$9,073 million in the second quarter of 2013 and \$8,141 million in the third quarter of 2012.

Payables to customers and broker-dealers represent funds awaiting re-investment and short sale proceeds payable on demand. Payables to customers and broker-dealers were \$15.3 billion at both Sept. 30, 2013 and June 30, 2013 and \$13.7 billion at Sept. 30, 2012. Payables to customers and broker-dealers are driven by customer trading activity levels and market volatility.

Information related to commercial paper is presented below.

| Commercial paper<br>(dollar amounts in millions) | Quarter ended  |               |                |
|--|----------------|---------------|----------------|
|  | Sept. 30, 2013 | June 30, 2013 | Sept. 30, 2012 |
| Maximum daily balance during the quarter         | \$4,873        | \$924         | \$2,331        |
| Average daily balance                            | \$1,186        | \$58          | \$968          |
| Weighted-average rate during the quarter         | 0.05 %         | 0.04 %        | 0.12 %         |
| Ending balance                                   | \$1,851        | \$111         | \$1,278        |

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

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

Information related to other borrowed funds is presented below.

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

Other borrowed funds primarily include overdrafts of sub-custodian account balances in our Investment Services businesses and borrowings under lines of credit by our Pershing subsidiaries. Overdrafts typically relate to timing differences for settlements. Other borrowed funds were \$844 million at Sept. 30, 2013 compared with \$1.1 billion at both June 30, 2013 and Sept. 30, 2012. Other borrowed funds averaged \$1.0 billion in the third quarter of 2013, \$1.4 billion in the second quarter of 2013 and \$887 million in the third quarter of 2012. The maximum daily balance in the third quarter of 2013 was \$3.6 billion compared with \$3.7 billion in the second quarter of 2013 and \$1.3 billion in the third quarter of 2012. Changes from prior periods primarily reflect higher overdrafts of sub-custodian account balances in our Investment Services businesses.

#### Liquidity and dividends

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

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

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

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

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

When monitoring liquidity, we evaluate multiple metrics in order to have ample liquidity for expected and unexpected events. Metrics include cashflow mismatches, asset maturities, access to debt and money markets, debt spreads, peer ratios, liquid assets, unencumbered collateral, funding sources and balance sheet liquidity ratios.

Ratios we currently monitor as part of our standard analysis include total loans as a percentage of total deposits, deposits as a percentage of total interest-earning assets, foreign deposits as a percentage of total interest-earning assets, purchased funds as a percentage of total interest-earning assets, liquid assets as a percentage of total interest-earning assets, liquid assets as a percentage of purchased funds, and discount window collateral and central bank deposits as a percentage of total deposits. All of these ratios exceeded our minimum guidelines at Sept. 30, 2013. In addition, we also monitor the Basel III liquidity coverage ratio expected to be applied to us, based on our interpretation of the proposed rules.

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



firm-specific events. Under our scenario testing program, the results of the tests indicate that the Company has sufficient liquidity.

We define available funds as liquid funds (which include interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements), cash and due from banks, and interest-bearing deposits with the Federal Reserve and other central banks. The table below presents our total available funds including liquid funds at period-

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

client deposits and attractive overnight borrowing opportunities.

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

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

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

The Parent has four major sources of liquidity:

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

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

In July 2013, BNY Mellon paid a quarterly cash dividend of \$0.15 per common share. Our common stock dividend payout ratio was 33% for the first nine months of 2013, or 24% after adjusting for the impact of the U.S. Tax Court's decisions regarding certain foreign tax credits. The Federal Reserve's current guidance provides that, for large bank holding companies like us, dividend payout ratios exceeding 30% of after-tax net income will receive particularly close scrutiny.

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

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The Parent's average commercial paper borrowings were \$1.2 billion in the third quarter of 2013 compared with \$968 million in the third quarter of 2012. The Parent had cash of \$7.1 billion at Sept. 30, 2013, compared with \$4.0 billion at Dec. 31, 2012. In addition to issuing commercial paper for funding purposes, the Parent issues commercial paper, on an overnight basis, to certain custody clients with excess demand deposit balances. Overnight commercial paper outstanding issued by the Parent was \$1.9 billion at Sept. 30, 2013 and \$338 million at Dec. 31, 2012. Net of commercial paper outstanding, the Parent's cash position at Sept. 30, 2013, increased by \$1.5 billion compared with Dec. 31, 2012, primarily reflecting the issuance of senior debt and preferred stock, partially offset by maturities of long-term debt.

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

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

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

In addition to our other funding sources, we also have the ability to access the capital markets. In June 2013, we filed shelf registration statements on Form S-3 with the Securities and Exchange Commission ("SEC") covering the issuance of certain securities, including an unlimited amount of debt, common stock, preferred stock and trust preferred securities, as well as common stock issued under the Direct Stock Purchase and Dividend Reinvestment Plans. These registration statements will expire in June 2016, at which time we plan to file new shelf registration statements.

Our ability to access the capital markets on favorable terms, or at all, is partially dependent on our credit ratings, which, as of Sept. 30, 2013, were as follows:

Credit ratings

|                              | Moody's | S&P      | Fitch  | DBRS         |
|------------------------------|---------|----------|--------|--------------|
| Parent:                      |         |          |        |              |
| Long-term senior debt        | Aa3     | A+       | AA-    | AA (low)     |
| Subordinated debt            | A1      | A        | A+     | A (high)     |
| Preferred stock              | Baa1    | BBB      | BBB    | A (low)      |
| Trust-preferred securities   | A2      | BBB      | BBB+   | A (high)     |
| Short-term debt              | P1      | A-1      | F1+    | R-1 (middle) |
| Outlook - Parent:            | (a)     | Negative | Stable | Stable       |
| The Bank of New York Mellon: |         |          |        |              |
| Long-term senior debt        | Aa1     | AA-      | AA-    | AA           |
| Long-term deposits           | Aa1     | AA-      | AA     | AA           |
| Short-term deposits          | P1      | A-1+     | F1+    | R-1 (high)   |
| BNY Mellon, N.A.:            |         |          |        |              |
| Long-term senior debt        | Aa1     | AA-      | AA-    | (b) AA       |
| Long-term deposits           | Aa1     | AA-      | AA     | AA           |
| Short-term deposits          | P1      | A-1+     | F1+    | R-1 (high)   |
| Outlook - Banks:             | (a)     | Stable   | Stable | Stable       |

- (a) Long-term ratings under review for downgrade.
- (b) Represents senior debt issuer default rating.

As a result of Moody's Investors Service ("Moody's") and S&P's government support assumptions on certain U.S. financial institutions, the Parent's ratings by Moody's and S&P benefit from one notch of "lift". Similarly, The Bank of New York Mellon's and BNY Mellon, N.A.'s ratings benefit from two notches of "lift" from Moody's and one notch of "lift" from S&P. In separate statements in June 2013 and August 2013, both S&P and Moody's indicated that they are reconsidering their inclusion of assumed government support in their ratings on the eight U.S. bank holding companies that they view as having high systemic importance, including The Bank of New York Mellon Corporation.

On July 2, 2013, Moody's placed the long-term ratings of three large U.S. trust and custody banks on review for downgrade, including The Bank of New York Mellon Corporation. The short-term debt and deposit ratings for all three banks, including The Bank of New York Mellon Corporation were affirmed at both the bank and holding company levels. On Sept. 25, 2013, Moody's extended its review and indicated it would consider both the standalone and government support ratings on the U.S. trust and custody banks simultaneously. Moody's indicated that the review will focus on the long-term profitability challenges facing these very highly-rated institutions, which are driven by aggressive pricing of all three banks' core custody products and services. According to Moody's, the review will also examine the banks' ability to generate more revenue from

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custody-related services and cut costs, and consider the level of the banks' dependence on ancillary revenues that have come under pressure. For further discussion on the impact of a credit rating downgrade, see Note 17 of the Notes to Consolidated Financial Statements.

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

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

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

bps - basis points.

At Sept. 30, 2013, we had \$324 million of trust preferred securities outstanding, which currently qualify as Tier 1 capital. Any decision to take action with respect to these trust preferred securities will be based on several considerations including interest rates, the availability of cash and capital, as well as the implementation of the Final Capital Rules.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity, which includes our noncumulative perpetual preferred stock plus trust preferred securities. Our double leverage ratio was 109.0% at Sept. 30, 2013 and 109.9% at Dec. 31, 2012. The double leverage ratio is monitored by regulators and rating agencies and is an important constraint on our ability to invest in our subsidiaries and expand our businesses.

Pershing LLC, an indirect subsidiary of BNY Mellon, has committed and uncommitted lines of credit in place for liquidity purposes which are guaranteed by

the Parent. The committed line of credit of \$750 million extended by 16 financial institutions matures in March 2014. There were no borrowings against this line in the third quarter of 2013. Pershing LLC has nine separate uncommitted lines of credit amounting to \$1.6 billion in aggregate. There were no borrowings against these lines in the third quarter of 2013. See "Liquidity and dividends" in our 2012 Annual Report for a description of the covenants required to be maintained by the Parent for the committed lines of credit maintained by Pershing LLC. We are currently in compliance with these covenants.

Pershing Limited, an indirect UK-based subsidiary of BNY Mellon, has uncommitted lines of credit in place for liquidity purposes, which are guaranteed by the Parent. Pershing Limited has two separate uncommitted lines of credit amounting to \$250 million in aggregate. Average daily borrowing under these lines was \$65 million, in aggregate, in the third quarter of 2013.

Statement of cash flows

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

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

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

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

## Capital

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

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

Total The Bank of New York Mellon Corporation shareholders' equity at Sept. 30, 2013 increased to \$37.0 billion from \$36.4 billion at Dec. 31, 2012. The increase primarily reflects earnings retention and the issuance of \$500 million of noncumulative perpetual preferred stock, partially offset by a decline in the value of our investment securities portfolio and share repurchases. Additionally, in the first nine months of 2013, we generated approximately \$400 million of capital through the exercise of stock options and awards and employee benefit plan contributions.

The unrealized net of tax gain on our available-for-sale investment securities portfolio recorded in accumulated other comprehensive income was \$456 million at Sept. 30, 2013 compared with \$1.3 billion at Dec. 31, 2012. The decrease in the valuation of the



investment securities portfolio was driven by an increase in long-term interest rates and \$102 million of net realized securities gains in the first nine months of 2013.

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

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

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

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This cash dividend was paid on Nov. 5, 2013, to shareholders of record as of the close of business on Oct. 28, 2013.

### Capital adequacy

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

company, our bank subsidiaries and BNY Mellon must, among other things, qualify as “well capitalized”.

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

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

### Consolidated and largest bank subsidiary capital ratios

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

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

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

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

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(d) The minimum leverage ratio for state member banks is 3% or 4%, depending on factors specified in regulations. N/A - Not applicable at the consolidated company level. Well capitalized and adequately capitalized have not been defined at the consolidated company level for Basel III Tier 1 common equity.

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

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

(b) On a fully phased-in basis.

(c) Includes foreign currency translation.

bps - basis points.

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

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

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

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

Capital ratios vary depending on the size of the balance sheet at quarter-end and the level and types of investments in assets. The balance sheet size fluctuates from quarter to quarter based on levels of customer and market activity. In general, when servicing clients are more actively trading securities, deposit balances and the balance sheet as a whole are higher. In addition, when markets experience significant volatility or stress, our balance sheet size may increase considerably as client deposit levels increase.

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

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

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

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

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

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

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

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

At Sept. 30, 2013, we had \$324 million of trust preferred securities outstanding which currently qualify as Tier 1 capital. Any decision to take action with respect to these trust preferred securities will be based on several considerations including interest rates, the availability of cash and capital, as well as the implementation of the Final Capital Rules.

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

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

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

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

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

#### Trading activities and risk management

Our trading activities are focused on acting as a market maker for our customers and facilitating customer trades. Positions managed for our own account are immaterial to our foreign exchange and other trading revenue and to our overall results of operations. The risk from market-making activities for customers is managed by our traders and limited in total exposure through a system of position limits, a value-at-risk ("VaR") methodology based on a Monte

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Carlo simulation, stop loss advisory triggers, and other market sensitivity measures. The calculation of our VaR used by management and presented below assumes a one-day holding period, utilizes a 99% confidence level, and incorporates the non-linear characteristics of options. See Note 17 of

the Notes to Consolidated Financial Statements for additional information on the VaR methodology.

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

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

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

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

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

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

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

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

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

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

futures and options, and other currency derivative products.



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

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

During the third quarter of 2013, interest rate risk generated 73% of average VaR, equity risk generated 18% of average VaR and foreign exchange risk accounted for 9% of average VaR. During the third quarter of 2013, our daily trading loss did not exceed our calculated VaR amount of the overall portfolio on any given day.

The following table of total daily trading revenue or loss illustrates the number of trading days in which our trading revenue or loss fell within particular ranges during the past five quarters. The sequential decrease in the number of trading days greater than \$5 million is attributable to an overall reduction in trading revenue and lower foreign exchange revenue largely driven by lower volatility, partially offset by a slight increase in volumes.

Distribution of trading revenues (losses) (a)

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

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

### Foreign exchange and other trading

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

Trading assets include debt and equity instruments and derivative assets, primarily interest rate and foreign exchange contracts, not designated as hedging instruments. Trading assets totaled \$12 billion at Sept. 30, 2013 compared with \$9 billion at Dec. 31, 2012. The increase in trading assets primarily resulted from a higher level of securities inventory, primarily U.S. Treasury securities, Agency RMBS and U.S. equity securities, as we expand our broker-dealer business.

Trading liabilities include debt and equity instruments, and derivative liabilities, primarily interest rate and foreign exchange contracts, not designated as hedging instruments. Trading liabilities totaled \$9 billion at Sept. 30, 2013 compared with \$8 billion at Dec. 31, 2012.

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

As required by ASC 820, Fair Value Measurements and Disclosures, we reflect external credit ratings as well as observable credit default swap spreads for

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

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

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

In the third quarter of 2012, net of hedges, the CVA decreased \$28 million and the DVA decreased \$4 million. The net impact of these adjustments increased foreign exchange and other trading revenue by \$24 million in the third quarter of 2012.

The table below summarizes the risk ratings for our foreign exchange and interest rate derivative counterparty credit exposure. This information indicates the degree of risk to which we are exposed. Significant changes in ratings

classifications for our foreign exchange and other trading activity could result in increased risk for us. The sequential increase in the percentage of exposure to counterparties with a risk rating profile of A+ to A- was mainly due to an increase in interest rate swap exposures driven by higher long-term rates. The sequential decrease in the percentage of exposure to counterparties with a risk rating profile of AAA+ to AA- largely reflects an improvement in key currency rates and changes in the portfolio composition.

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

|  | Quarter ended  |               |                |               |                |   |
|--|----------------|---------------|----------------|---------------|----------------|---|
|  | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | June 30, 2013 | Sept. 30, 2013 |   |
| Rating:                                    |                |               |                |               |                |   |
| AAA to AA-                                 | 43             | %38           | %37            | %41           | %35            | % |
| A+ to A-                                   | 27             | 35            | 40             | 38            | 43             |   |
| BBB+ to<br>BBB-                            | 23             | 22            | 19             | 17            | 16             |   |
| Non-investment<br>grade (BB+<br>and lower) | 7              | 5             | 4              | 4             | 6              |   |
| Total                                      | 100            | %100          | %100           | %100          | %100           | % |

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

## Asset/liability management

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

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

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

extension risk in certain of our assets. To the extent that actual behavior is different from that assumed in the models, there could be a change in interest rate sensitivity.

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

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

| Estimated changes in net<br>interest revenue<br>(dollars in millions) | Sept. 30, 2013 | June 30, 2013 |
|---|----------------|---------------|
| up 200 bps parallel rate ramp vs.                                     | \$617          | \$402         |

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

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

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

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

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

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

#### Off-balance sheet arrangements

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

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## Supplemental information - Explanation of GAAP and Non-GAAP financial measures

BNY Mellon has included in this Form 10-Q certain Non-GAAP financial measures based upon Tier 1 common equity and tangible common shareholders' equity. BNY Mellon believes that the ratio of Tier 1 common equity to risk-weighted assets and the ratio of tangible common shareholders' equity to tangible assets of operations are measures of capital strength that provide additional useful information to investors, supplementing the Tier 1 and Total capital ratios which are utilized by regulatory authorities. The ratio of Basel I Tier 1 common equity to risk-weighted assets excludes preferred stock and trust preferred securities from the numerator of the ratio. Unlike the Basel I Tier 1 and Total capital ratios, the tangible common shareholders' equity ratio fully incorporates those changes in investment securities valuations which are reflected in total shareholders' equity. In addition, this ratio is expressed as a percentage of the actual book value of assets, as opposed to a percentage of a risk-based reduced value established in accordance with regulatory requirements, although BNY Mellon in its calculation has excluded certain assets which are given a zero percent risk-weighting for regulatory purposes. Further, BNY Mellon believes that the return on tangible common equity measure, which excludes goodwill and intangible assets net of deferred tax liabilities, is a useful additional measure for investors because it presents a measure of BNY Mellon's performance in reference to those assets that are productive in generating income. BNY Mellon has provided a measure of tangible book value per share, which it believes provides additional useful information as to the level of such assets in relation to shares of common stock outstanding. BNY Mellon has presented its estimated Basel III Tier 1 common equity ratio based on its interpretation, expectations and understanding of the final Basel III rules released by the Federal Reserve on July 2, 2013, on a fully phased-in basis and on the application of such rules to BNY Mellon's businesses as currently conducted. The estimated Basel III Tier 1 common equity ratio is necessarily subject to, among other things, BNY Mellon's further review and implementation of the final Basel III rules, anticipated compliance with all necessary enhancements to model calibration, and other refinements, further implementation guidance from regulators and any changes BNY Mellon may make to its businesses. Consequently, BNY Mellon's estimated Basel III Tier 1 common equity ratio may

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

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

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The presentation of income from consolidated investment management funds, net of net income attributable to noncontrolling interest related to the consolidation of certain investment management funds permits investors to view revenue on a basis consistent with how management views the business. BNY Mellon believes these presentations, as a supplement to GAAP information, give investors a clearer picture of the results of its primary businesses.

In this Form 10-Q, the net interest margin is presented on an FTE basis. We believe this presentation provides comparability of amounts arising from both taxable and tax-exempt sources, and is consistent with industry practice. The adjustment to an FTE basis has no impact on net income. Each of these measures as described above is used by management to monitor financial performance, both on a company-wide and business-level basis.

The following table presents a reconciliation of net income and diluted earnings per common share.

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

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

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

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|   |    |      |      |      |      |   |
|---|----|------|------|------|------|---|
| Pre-tax operating margin (a)  | 26 | % 30 | % 27 | % 26 | % 22 | % |
| Pre-tax operating margin, excluding net income attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets and M&I, litigation and restructuring charges – Non-GAAP (a) | 29 | % 32 | % 29 | % 29 | % 29 | % |
| (a) Income before taxes divided by total revenue.   |    |      |      |      |      |   |

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

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

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

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

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

(a) Annualized.

N/M – Not meaningful.

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

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

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

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

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

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

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

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

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

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

(a) Determined under Basel I regulatory guidelines.

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

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

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

Under the Standardized Approach:

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

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

Under the Advanced Approach:

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

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

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

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

N/A – Not applicable.

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## Recent accounting and regulatory developments

### Proposed Accounting Standards

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

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

In November 2011, the FASB re-exposed the proposed ASU. A final standard is expected to be issued during the fourth quarter of 2013. The FASB and IASB tentatively decided that the effective date of the proposed standard would be annual reporting periods beginning on or after Jan. 1, 2017.

#### Proposed ASU - Principal versus Agent Analysis

In November 2011, the FASB issued a proposed ASU “Principal versus Agent Analysis.” This proposed ASU would rescind the 2010 indefinite deferral of FAS 167 for certain investment funds, including mutual funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds, and amends the pre-existing guidance for evaluating consolidation of voting general partnerships and similar entities. The proposed ASU also amends the criteria for determining whether an entity is a variable interest entity under FAS 167, which could affect whether an entity is within its scope. Accordingly, certain funds that previously were not consolidated must be reviewed to determine

whether they will now be required to be consolidated. The proposed accounting standard will continue to require BNY Mellon to determine whether or not it has a variable interest in a variable interest entity. However, consolidation of its variable interest entity and voting general partnership asset management funds will be based on whether or not BNY Mellon, as the asset manager, uses its power as a decision maker as either a principal or an agent. Based on a preliminary review of the proposed ASU, we do not expect to be required to consolidate additional mutual funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds. In addition, we expect to deconsolidate a portion of the CLOs we currently consolidate, with further deconsolidation possible depending on future changes to BNY Mellon’s investment in subordinated notes. The FASB is currently evaluating comment letters received. A final ASU is expected to be issued during the second half of 2014.

#### Proposed ASU - Leases

In May 2013, the FASB and IASB issued a revised proposed ASU on leases. The proposed ASU introduces new accounting models for both lessees and lessors, primarily to address concerns related to off-balance-sheet financing arrangements available to lessees under current guidance. The proposal would require lessees to account for all leases on the balance sheet, except for certain short-term leases that have a maximum possible lease term of 12 months or less, including any options to renew. A lessee would recognize on its balance sheet (1) an asset for its right to use the underlying asset over the lease term and (2) a liability representing its obligation to make lease payments over the lease term. The income statement impact for lessees would depend on the nature of the underlying asset - that is, whether the underlying asset is property or an asset other than property - and the terms and conditions of the lease.

The proposed ASU also introduces new accounting guidance for lessors. Lessors would account for leases under either the new receivable-and-residual approach or an approach similar to current operating-lease accounting. The appropriate approach to use would depend on the nature of the underlying asset - that is, whether the underlying asset is property or an asset other than property - and the terms and conditions of the lease. If finalized, the proposed ASU would converge the most significant aspects of the FASB's and IASB's accounting for lease contracts. Comments on this proposed ASU were due in

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September 2013. A final standard is expected to be effective no earlier than reporting periods beginning on Jan. 1, 2017.

#### Proposed ASU - Financial Instruments - Credit Losses

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

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

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

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

In February 2013, the FASB issued a proposed ASU, "Recognition and Measurement of Financial Assets and Financial Liabilities." This proposed ASU would affect entities that hold financial assets and liabilities and would change the methodology related to recognition, classification, measurement and

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

#### Proposed ASU - Reporting Discontinued Operations

In April 2013, the FASB issued a proposed ASU, "Reporting Discontinued Operations." This proposed ASU would change the criteria and enhance the reporting for discontinued operations. The proposal would also enhance disclosure requirements and add new disclosures for individually material dispositions that do not qualify as discontinued operations. Under the proposal, a discontinued operation is a component of an entity, or group of components of an entity, that either has been disposed of, or is classified as held for sale and (1) is part of a single coordinated plan to dispose of a separate major line of business or separate major geographical area of operations, or (2) is a business that, on acquisition, meets the criteria for classification as held for sale. The proposal no longer precludes the presentation of a discontinued operation if there is significant continuing involvement with the component after the disposal or if

there are ongoing operations or cash flows. Under the proposal, for disposals that are material but do not qualify as discontinued operations, disclosures of pre-tax income or losses of the disposed component and a reconciliation of the major classes of assets and liabilities held for sale to the amounts presented separately on the balance sheet would be required. Comments on this proposed ASU were due in August 2013.

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

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

#### Adoption of new accounting standards

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

#### IFRS

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

In November 2008, the SEC proposed a “roadmap” for phasing in mandatory IFRS filings by U.S. public companies. The roadmap is conditional on progress towards milestones that would demonstrate improvements in both the infrastructure of international standard setting and the preparation of the U.S. financial reporting community. In February 2010, the SEC issued a statement confirming their position that they continue to believe that a single set of high-quality, globally accepted accounting standards would benefit U.S. investors. The SEC continues to support the dual goals of improving financial reporting in the United States and reducing country-by-country disparities in financial reporting. The SEC developed a work plan to aid in its evaluation of the impact of IFRS on the U.S. securities market.

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

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

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

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## Update to Internal Controls - Integrated Framework

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

## Regulatory developments

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

## New Risk-Based and Leverage Regulatory Capital Rules

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

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

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

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

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

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

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

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

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

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

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

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

"Collins Amendment" - the Final Capital Rules clarify the computation date for trust preferred securities. The Final Capital Rules concerning the applicable transition period state that non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 (and that are also outstanding on the effective date of the final rule) may continue to be included in Tier 1 or Tier 2 capital up to the following percentages: Calendar year 2014: 50%; Calendar year 2015: 25%; and Calendar year 2016 and later dates: 0%. Certain non-qualifying instruments no longer eligible for inclusion in Tier 1 capital may still be included in Tier 2 capital over a gradual phase-out schedule terminating in 2022. At Sept. 30, 2013, BNY Mellon had \$324 million of outstanding trust preferred securities.

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

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

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

The Final Capital Rules do not address certain matters concerning financial institution capital, liquidity and related matters expected to be the subject of regulation in the near term. These items include U.S. implementation of capital surcharges for G-SIBs (for which BNY Mellon has been provisionally assigned a 1.5% surcharge, as indicated above), Basel III's liquidity standards, loss absorbency standards designed to facilitate a holding

company “single point of entry” resolution under Title II of the Dodd-Frank Act, and capital charges designed to discourage overreliance on short-term wholesale funding practices.

#### Supplementary Leverage Ratio Proposals

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

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

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

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

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

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

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

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

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

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

#### European Central Bank Comprehensive Assessments

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

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

#### Website information

Our website is [www.bnymellon.com](http://www.bnymellon.com). We currently make available the following information under the Investor Relations portion of our website. With respect to SEC filings, we post such information as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC.

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

- Financial statements and footnotes prepared using Extensible Business Reporting Language ("XBRL");
- Our earnings releases and selected management conference calls and presentations;
- Other regulatory disclosures, including: Basel II.5 Market Risk Disclosures; Basel II Pillar 3 Disclosures; Federal Financial Institutions Examination Council - Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices; Consolidated Financial Statements for Bank Holding Companies; and the Dodd-Frank Act Stress Test Results for BNY Mellon and The Bank of New York Mellon; and
- Our Corporate Governance Guidelines, Directors Code of Conduct and the charters of the Audit, Corporate Governance and Nominating, Human Resources and Compensation, Risk, Technology and Corporate Social Responsibility Committees of our Board of Directors.

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



## Item 1. Financial Statements

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

## Consolidated Income Statement (unaudited)

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

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

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## Consolidated Income Statement (unaudited) (continued)

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

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

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

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

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

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

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

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

See accompanying Notes to Consolidated Financial Statements.



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

## Consolidated Comprehensive Income Statement (unaudited)

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

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

See accompanying Notes to Consolidated Financial Statements.

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

## Consolidated Balance Sheet (unaudited)

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

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

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

## Consolidated Statement of Cash Flows (unaudited)

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

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

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

Consolidated Statement of Changes in Equity (unaudited)

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

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

See accompanying Notes to Consolidated Financial Statements.



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Notes to Consolidated Financial Statements

Note 1 - Basis of presentation

Basis of presentation

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

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

Use of estimates

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

Note 2 - Accounting changes and new accounting guidance

ASU 2011-11 - Disclosures about Offsetting Assets and Liabilities

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

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

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

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

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

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Notes to Consolidated Financial Statements (continued)

Note 3 - Acquisitions and dispositions

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

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

Dispositions in 2013

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

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

Acquisitions in 2012

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

## Notes to Consolidated Financial Statements (continued)

## Note 4 - Securities

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

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

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

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

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

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

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

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

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## Notes to Consolidated Financial Statements (continued)

## Temporarily impaired securities

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

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

| Temporarily impaired securities at Sept. 30,<br>2013<br><br>(in millions) | Less than 12 months |                      | 12 months or more |                      | Total         |                      |
|---|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
|   | Fair<br>value       | Unrealized<br>losses | Fair<br>value     | Unrealized<br>losses | Fair<br>value | Unrealized<br>losses |
| Available-for-sale:   |                     |                      |                   |                      |               |                      |
| U.S. Treasury   | \$4,849             | \$434                | \$—               | \$—                  | \$4,849       | \$434                |
| U.S. Government agencies  | 97                  | 4                    | —                 | —                    | 97            | 4                    |
| State and political subdivisions  | 2,883               | 81                   | 139               | 6                    | 3,022         | 87                   |
| Agency RMBS   | 11,898              | 475                  | 84                | 5                    | 11,982        | 480                  |
| Alt-A RMBS  | 16                  | 9                    | 34                | 1                    | 50            | 10                   |
| Prime RMBS  | 113                 | 3                    | 180               | 9                    | 293           | 12                   |
| Subprime RMBS   | —                   | —                    | 384               | 39                   | 384           | 39                   |
| Other RMBS  | 102                 | 28                   | 630               | 51                   | 732           | 79                   |
| Commercial MBS  | 512                 | 21                   | 167               | 10                   | 679           | 31                   |
| Agency commercial MBS   | 1,096               | 21                   | —                 | —                    | 1,096         | 21                   |
| Asset-backed CLOs   | 488                 | 1                    | 109               | 2                    | 597           | 3                    |
| Other asset-backed securities   | 1,579               | 9                    | 6                 | 1                    | 1,585         | 10                   |
| Foreign covered bonds   | 1,164               | 76                   | —                 | —                    | 1,164         | 76                   |
| Corporate bonds   | 285                 | 17                   | —                 | —                    | 285           | 17                   |
| Other debt securities   | 2,514               | 11                   | —                 | —                    | 2,514         | 11                   |
| Alt-A RMBS (a)  | 33                  | 1                    | 22                | 1                    | 55            | 2                    |
| Prime RMBS (a)  | 30                  | 1                    | 6                 | —                    | 36            | 1                    |
| Total securities available-for-sale                                       | \$27,659            | \$1,192              | \$1,761           | \$125                | \$29,420      | \$1,317              |
| Held-to-maturity:   |                     |                      |                   |                      |               |                      |
| U.S. Treasury   | \$1,920             | \$45                 | \$490             | \$7                  | 2,410         | 52                   |
| U.S. Government agencies  | 408                 | 10                   | —                 | —                    | 408           | 10                   |
| Agency RMBS   | 13,653              | 137                  | —                 | —                    | 13,653        | 137                  |
| Alt-A RMBS  | 17                  | —                    | 21                | 3                    | 38            | 3                    |
| Prime RMBS  | —                   | —                    | 47                | 1                    | 47            | 1                    |
| Other RMBS  | 145                 | —                    | 439               | 39                   | 584           | 39                   |
| Commercial MBS  | —                   | —                    | 20                | 1                    | 20            | 1                    |
| Other securities  | 633                 | 3                    | —                 | —                    | 633           | 3                    |
| Total securities held-to-maturity   | \$16,776            | \$195                | \$1,017           | \$51                 | \$17,793      | \$246                |
| Total temporarily impaired securities                                     | \$44,435            | \$1,387              | \$2,778           | \$176                | \$47,213      | \$1,563              |

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



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Notes to Consolidated Financial Statements (continued)

| Temporarily impaired securities at Dec. 31, 2012<br>(in millions) | Less than 12 months |                   | 12 months or more |                   | Total      |                   |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
|   | Fair value          | Unrealized losses | Fair value        | Unrealized losses | Fair value | Unrealized losses |
| Available-for-sale:   |                     |                   |                   |                   |            |                   |
| U.S. Treasury   | \$956               | \$3               | \$—               | \$—               | \$956      | \$3               |
| State and political subdivisions                                  | 1,139               | 7                 | 173               | 22                | 1,312      | 29                |
| Agency RMBS   | 1,336               | 8                 | 96                | —                 | 1,432      | 8                 |
| Alt-A RMBS  | 31                  | 13                | 39                | 3                 | 70         | 16                |
| Prime RMBS  | 110                 | 2                 | 253               | 7                 | 363        | 9                 |
| Subprime RMBS   | 13                  | 3                 | 397               | 59                | 410        | 62                |
| Other RMBS  | 64                  | 19                | 670               | 90                | 734        | 109               |
| Commercial MBS  | 131                 | 1                 | 310               | 44                | 441        | 45                |
| Asset-backed CLOs   | 314                 | 1                 | 321               | 9                 | 635        | 10                |
| Other asset-backed securities                                     | 779                 | 2                 | 7                 | 1                 | 786        | 3                 |
| Corporate bonds   | 178                 | 3                 | —                 | —                 | 178        | 3                 |
| Alt-A RMBS (a)  | 22                  | —                 | 30                | 4                 | 52         | 4                 |
| Total securities available-for-sale                               | \$5,073             | \$62              | \$2,296           | \$239             | \$7,369    | \$301             |
| Held-to-maturity:   |                     |                   |                   |                   |            |                   |
| Agency RMBS   | \$234               | \$1               | \$—               | \$—               | \$234      | \$1               |
| Alt-A RMBS  | 38                  | —                 | 24                | 6                 | 62         | 6                 |
| Prime RMBS  | —                   | —                 | 56                | 1                 | 56         | 1                 |
| Subprime RMBS   | —                   | —                 | 24                | 1                 | 24         | 1                 |
| Other RMBS  | 413                 | —                 | 373               | 52                | 786        | 52                |
| Commercial MBS  | —                   | —                 | 25                | 1                 | 25         | 1                 |
| Total securities held-to-maturity                                 | \$685               | \$1               | \$502             | \$61              | \$1,187    | \$62              |
| Total temporarily impaired securities                             | \$5,758             | \$63              | \$2,798           | \$300             | \$8,556    | \$363             |

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

The following table shows the maturity distribution by carrying amount and yield (on a tax equivalent basis) of our investment securities portfolio at Sept. 30, 2013.

| Maturity distribution and yield on investment securities at Sept. 30, 2013<br>(dollars in millions) | U.S. Treasury |           | U.S. Government agencies |           | State and political subdivisions |           | Other bonds, notes and debentures |           | Mortgage/asset-backed and equity securities |           | Total     |
|---|---------------|-----------|--------------------------|-----------|----------------------------------|-----------|-----------------------------------|-----------|---|-----------|-----------|
|   | Amount        | Yield (a) | Amount                   | Yield (a) | Amount                           | Yield (a) | Amount                            | Yield (a) | Amount                                      | Yield (a) |           |
| Securities available-for-sale:  |               |           |                          |           |                                  |           |                                   |           |   |           |           |
| One year or less  | \$1,664       | 1.21      | % \$362                  | 1.22      | % \$439                          | 0.86      | % \$4,370                         | 1.18      | % \$—                                       | —         | % \$6,370 |
| Over 1 through 5 years  | 3,656         | 0.93      | 585                      | 1.89      | 3,177                            | 1.85      | 10,902                            | 1.04      | —   | —         | 18,314    |
| Over 5 through 10 years   | 1,333         | 2.86      | 134                      | 1.65      | 2,804                            | 3.29      | 1,855                             | 2.77      | —   | —         | 6,126     |
| Over 10 years   | 3,778         | 3.12      | —                        | —         | 300                              | 2.48      | —                                 | —         | —   | —         | 4,078     |
|   | —             | —         | —                        | —         | —                                | —         | —                                 | —         | 36,752                                      | 2.60      | 36,752    |

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|                              |          |      |           |      |           |      |            |      |            |        |        |        |
|------------------------------|----------|------|-----------|------|-----------|------|------------|------|------------|--------|--------|--------|
| Mortgage-backed securities   |          |      |           |      |           |      |            |      |            |        |        |        |
| Asset-backed securities      | —        | —    | —         | —    | —         | —    | —          | —    | —          | 4,024  | 1.18   | 4,024  |
| Equity securities (b)        | —        | —    | —         | —    | —         | —    | —          | —    | —          | 964    | —      | 964    |
| Total                        | \$10,431 | 2.01 | % \$1,081 | 1.63 | % \$6,720 | 2.42 | % \$17,127 | 1.26 | % \$41,740 | 2.40   | % \$77 |        |
| Securities held-to-maturity: |          |      |           |      |           |      |            |      |            |        |        |        |
| One year or less             | \$—      | —    | % \$—     | —    | % \$—     | —    | % \$3      | 0.15 | % \$—      | —      | % \$3  |        |
| Over 1 through 5 years       | 2,379    | 1.21 | 308       | 1.18 | —         | —    | 703        | 0.54 | —          | —      | 3,390  |        |
| Over 5 through 10 years      | 945      | 2.22 | 111       | 1.61 | 34        | 6.74 | —          | —    | —          | —      | 1,090  |        |
| Over 10 years                | —        | —    | —         | —    | 20        | 4.48 | —          | —    | —          | —      | 20     |        |
| Mortgage-backed securities   | —        | —    | —         | —    | —         | —    | —          | —    | —          | 15,855 | 2.67   | 15,855 |
| Total                        | \$3,324  | 1.49 | % \$419   | 1.29 | % \$54    | 5.90 | % \$706    | 0.54 | % \$15,855 | 2.67   | % \$20 |        |

(a) Yields are based upon the amortized cost of securities.

(b) Includes money market funds.

## Notes to Consolidated Financial Statements (continued)

## Other-than-temporary impairment

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

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

• **Severity** - the loss expected to be realized when a loan defaults.

To determine if an unrealized loss is other-than-temporary, we project total estimated defaults of the underlying assets (mortgages) and multiply that calculated amount by an estimate of realizable value upon sale of these assets in the marketplace (severity) in order to determine the projected collateral loss. In determining estimated default rate and severity assumptions, we review the performance of the underlying securities, industry studies, market forecasts, as well as our view of the economic outlook affecting collateral. We also evaluate the current credit enhancement underlying the bond to determine the impact on cash flows. If we determine that a given security will be subject to a write-down or loss, we record the expected credit loss as a charge to earnings.

The table below shows the projected weighted-average default rates and loss severities for the 2007, 2006 and late 2005 non-agency RMBS and the securities previously held in the Grantor Trust we established in connection with the restructuring of our investment securities portfolio in 2009, at Sept. 30, 2013 and Dec. 31, 2012.

## Projected weighted-average default rates and loss severities

|          | Sept. 30, 2013 |          | Dec. 31, 2012 |          |   |   |
|----------|----------------|----------|---------------|----------|---|---|
|          | Default rate   | Severity | Default rate  | Severity |   |   |
| Alt-A    | 41             | % 57     | % 43          | % 57     | % | % |
| Subprime | 58             | % 71     | % 61          | % 72     | % | % |
| Prime    | 23             | % 42     | % 24          | % 43     | % | % |

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

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

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 for which it is our intention to sell.

| Debt securities credit loss roll forward<br>(in millions) | 3Q13  | 3Q12  |
|---|-------|-------|
| Beginning balance as of June 30                           | \$164 | \$333 |
| Add: Initial OTTI credit losses                           | —     | 2     |
| Subsequent OTTI credit losses                             | 3     | 4     |
| Less: Realized losses for securities sold                 | 2     | 77    |
| Ending balance as of Sept. 30                             | \$165 | \$262 |

| Debt securities credit loss roll forward<br>(in millions) | Year-to-date |       |
|---|--------------|-------|
|   | 2013         | 2012  |
| Beginning balance as of Jan. 1                            | \$288        | \$253 |
| Add: Initial OTTI credit losses                           | 16           | 52    |
| Subsequent OTTI credit losses                             | 10           | 42    |
| Less: Realized losses for securities sold                 | 149          | 85    |
| Ending balance as of Sept. 30                             | \$165        | \$262 |

## Notes to Consolidated Financial Statements (continued)

## Note 5 - Loans and asset quality

## Loans

The table below provides the details of our loan distribution and industry concentrations of credit risk at Sept. 30, 2013 and Dec. 31, 2012.

| Loans<br>(in millions)                | Sept. 30, 2013 | Dec. 31, 2012 |
|---------------------------------------|----------------|---------------|
| Domestic:                             |                |               |
| Financial institutions                | \$3,725        | \$5,455       |
| Commercial                            | 1,544          | 1,306         |
| Wealth management loans and mortgages | 9,381          | 8,796         |
| Commercial real estate                | 1,970          | 1,677         |
| Lease financings (a)                  | 1,278          | 1,329         |
| Other residential mortgages           | 1,433          | 1,632         |
| Overdrafts                            | 1,487          | 2,228         |
| Other                                 | 701            | 639           |
| Margin loans                          | 15,146         | 13,397        |
| Total domestic                        | 36,665         | 36,459        |
| Foreign:                              |                |               |
| Financial institutions                | 8,950          | 5,833         |
| Commercial                            | 100            | 111           |
| Wealth management loans and mortgages | 63             | 68            |
| Commercial real estate                | 17             | 63            |
| Lease financings (a)                  | 954            | 1,025         |
| Other (primarily overdrafts)          | 3,389          | 3,070         |
| Total foreign                         | 13,473         | 10,170        |
| Total loans                           | \$50,138       | \$46,629      |

(a) Net of unearned income on domestic and foreign lease financings of \$1,041 million at Sept. 30, 2013 and \$1,135 million at Dec. 31, 2012.

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

Notes to Consolidated Financial Statements (continued)

Allowance for credit losses

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

Allowance for credit losses activity for the quarter ended Sept. 30, 2013

| (in millions)                             | Commercial | Commercial<br>real<br>estate | Financial<br>institution | Lease<br>financing | Wealth<br>management<br>loans and<br>mortgages | Other<br>residential<br>mortgages | All<br>Other  | Foreign   | Total     |   |   |
|---|------------|------------------------------|--------------------------|--------------------|--|-----------------------------------|---------------|-----------|-----------|---|---|
| Beginning balance                         | \$ 93      | \$ 30                        | \$ 34                    | \$ 41              | \$ 19  | \$ 75                             | \$—           | \$45      | \$337     |   |   |
| Charge-offs                               | (1         | )—                           | —                        | —                  | —  | (1                                | )—            | —         | (2        | ) |   |
| Recoveries                                | —          | —                            | —                        | —                  | —  | 1                                 | —             | 1         | 2         |   |   |
| Net (charge-offs)<br>recoveries           | (1         | )—                           | —                        | —                  | —  | —                                 | —             | 1         | —         |   |   |
| Provision                                 | (1         | )2                           | 7                        | (2                 | )  | (1                                | )             | (5        | )—        | 2 | 2 |
| Ending balance                            | \$ 91      | \$ 32                        | \$ 41                    | \$ 39              | \$ 18  | \$ 70                             | \$—           | \$48      | \$339     |   |   |
| Allowance for:                            |            |                              |                          |                    |  |                                   |               |           |           |   |   |
| Loans losses                              | \$ 17      | \$ 19                        | \$ 7                     | \$ 39              | \$ 14  | \$ 70                             | \$—           | \$40      | \$206     |   |   |
| Unfunded<br>commitments                   | 74         | 13                           | 34                       | —                  | 4  | —                                 | —             | 8         | 133       |   |   |
| Individually evaluated<br>for impairment: |            |                              |                          |                    |  |                                   |               |           |           |   |   |
| Loan balance                              | \$ 15      | \$ 3                         | \$ 1                     | \$—                | \$ 13  | \$—                               | \$—           | \$9       | \$41      |   |   |
| Allowance for loan<br>losses              | 3          | 1                            | —                        | —                  | 3  | —                                 | —             | 4         | 11        |   |   |
| Collectively evaluated<br>for impairment: |            |                              |                          |                    |  |                                   |               |           |           |   |   |
| Loan balance                              | \$ 1,529   | \$ 1,967                     | \$ 3,724                 | \$ 1,278           | \$ 9,368                                       | \$ 1,433                          | \$ 17,334 (a) | \$ 13,464 | \$ 50,097 |   |   |
| Allowance for loan<br>losses              | 14         | 18                           | 7                        | 39                 | 11   | 70                                | —             | 36        | 195       |   |   |

(a) Includes \$1,487 million of domestic overdrafts, \$15,146 million of margin loans and \$701 million of other loans at Sept. 30, 2013.

Allowance for credit losses activity for the quarter ended June 30, 2013

| (in millions)                   | Commercial | Commercial<br>real<br>estate | Financial<br>institution | Lease<br>financing | Wealth<br>management<br>loans and<br>mortgages | Other<br>residential<br>mortgages | All<br>Other | Foreign | Total |   |    |   |
|---------------------------------|------------|------------------------------|--------------------------|--------------------|--|-----------------------------------|--------------|---------|-------|---|----|---|
| Beginning balance               | \$ 97      | \$ 31                        | \$ 33                    | \$ 39              | \$ 29  | \$ 81                             | \$ 2         | \$46    | \$358 |   |    |   |
| Charge-offs                     | —          | —                            | —                        | —                  | —  | (3                                | )—           | —       | (3    | ) |    |   |
| Recoveries                      | —          | —                            | —                        | —                  | —  | 1                                 | —            | —       | 1     |   |    |   |
| Net (charge-offs)<br>recoveries | —          | —                            | —                        | —                  | —  | (2                                | )—           | —       | (2    | ) |    |   |
| Provision                       | (4         | )                            | (1                       | )                  | 1  | 2                                 | (10          | )       | (4    | ) | (2 | ) |
| Ending balance                  | \$ 93      | \$ 30                        | \$ 34                    | \$ 41              | \$ 19  | \$ 75                             | \$—          | \$45    | \$337 |   |    |   |
| Allowance for:                  |            |                              |                          |                    |  |                                   |              |         |       |   |    |   |
| Loans losses                    | \$ 19      | \$ 18                        | \$ 7                     | \$ 41              | \$ 15  | \$ 75                             | \$—          | \$37    | \$212 |   |    |   |
|                                 | 74         | 12                           | 27                       | —                  | 4  | —                                 | —            | 8       | 125   |   |    |   |

Unfunded  
commitments

Individually evaluated  
for impairment:

|                           |       |       |      |     |       |     |     |     |      |
|---------------------------|-------|-------|------|-----|-------|-----|-----|-----|------|
| Loan balance              | \$ 54 | \$ 15 | \$ 2 | \$— | \$ 14 | \$— | \$— | \$9 | \$94 |
| Allowance for loan losses | 3     | 1     | —    | —   | 3     | —   | —   | 4   | 11   |

Collectively evaluated  
for impairment:

|                           |          |          |          |          |          |          |           |               |           |
|---------------------------|----------|----------|----------|----------|----------|----------|-----------|---------------|-----------|
| Loan balance              | \$ 1,457 | \$ 2,060 | \$ 3,944 | \$ 1,282 | \$ 9,176 | \$ 1,505 | \$ 16,853 | (a) \$ 13,936 | \$ 50,213 |
| Allowance for loan losses | 16       | 17       | 7        | 41       | 12       | 75       | —         | 33            | 201       |

(a) Includes \$1,762 million of domestic overdrafts, \$14,434 million of margin loans and \$657 million of other loans at June 30, 2013.



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Notes to Consolidated Financial Statements (continued)

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

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

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

Allowance for credit losses activity for the nine months ended Sept. 30, 2013

| (in millions)     | Commercial | Commercial real estate | Financial institutions | Lease financings | Wealth management loans and mortgages | Other residential mortgages | All Other | Foreign | Total |
|-------------------|------------|------------------------|------------------------|------------------|---------------------------------------|-----------------------------|-----------|---------|-------|
| Beginning balance | \$ 104     | \$ 30                  | \$ 36                  | \$ 49            | \$ 30                                 | \$ 88                       | \$ 2      | \$48    | \$387 |
| Charge-offs       | (3)        | —                      | —                      | —                | —                                     | (7)                         | —         | —       | (10)  |
| Recoveries        | —          | —                      | —                      | —                | —                                     | 2                           | —         | 1       | 3     |
| Net (charge-offs) | (3)        | —                      | —                      | —                | —                                     | (5)                         | —         | 1       | (7)   |
| Provision         | (10)       | 2                      | 5                      | (10)             | (12)                                  | (13)                        | (2)       | (1)     | (41)  |
| Ending balance    | \$ 91      | \$ 32                  | \$ 41                  | \$ 39            | \$ 18                                 | \$ 70                       | \$—       | \$48    | \$339 |

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

| (in millions)     | Commercial | Commercial real estate | Financial institutions | Lease financings | Wealth management loans and mortgages | Other residential mortgages | All Other | Foreign | Total |
|-------------------|------------|------------------------|------------------------|------------------|---------------------------------------|-----------------------------|-----------|---------|-------|
| Beginning balance | \$ 91      | \$ 34                  | \$ 63                  | \$ 66            | \$ 29                                 | \$ 156                      | \$—       | \$58    | \$497 |
| Charge-offs       | (1)        | —                      | (8)                    | —                | —                                     | (19)                        | —         | —       | (28)  |
| Recoveries        | 1          | —                      | —                      | —                | —                                     | 5                           | —         | —       | 6     |
| Net (charge-offs) | —          | —                      | (8)                    | —                | —                                     | (14)                        | —         | —       | (22)  |

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|                |       |       |       |       |       |        |     |      |       |   |
|----------------|-------|-------|-------|-------|-------|--------|-----|------|-------|---|
| Provision      | 7     | 1     | (18   | )(11  | )4    | (1     | )2  | (3   | )(19  | ) |
| Ending balance | \$ 98 | \$ 35 | \$ 37 | \$ 55 | \$ 33 | \$ 141 | \$2 | \$55 | \$456 |   |

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## Notes to Consolidated Financial Statements (continued)

## Nonperforming assets

The table below presents the distribution of our nonperforming assets.

| Nonperforming assets<br>(in millions) | Sept. 30, 2013 | Dec. 31, 2012 |
|---------------------------------------|----------------|---------------|
| Nonperforming loans:                  |                |               |
| Other residential mortgages           | \$128          | \$158         |
| Commercial                            | 15             | 27            |
| Wealth management loans and mortgages | 12             | 30            |
| Foreign loans                         | 9              | 9             |
| Commercial real estate                | 4              | 18            |
| Financial institutions                | 1              | 3             |
| Total nonperforming loans             | 169            | 245           |
| Other assets owned                    | 3              | 4             |
| Total nonperforming assets (a)        | \$172          | \$249         |

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

At Sept. 30, 2013, undrawn commitments to borrowers whose loans were classified as nonaccrual or reduced rate were not material.

## Lost interest

| Lost interest<br>(in millions)  | 3Q13 | 2Q13 | 3Q12 | YTD13 | YTD12 |
|---|------|------|------|-------|-------|
| Amount by which interest income recognized on nonperforming loans exceeded reversals  | \$1  | \$1  | \$2  | \$1   | \$3   |
| Amount by which interest income would have increased if nonperforming loans at period-end had \$3 been performing for the entire period |      | \$3  | \$3  | \$8   | \$12  |

## Impaired loans

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

| Impaired loans<br>(in millions) | Quarter ended    |                 | June 30, 2013    |                 | Sept. 30, 2012   |                 |
|---------------------------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
|                                 | Average recorded | Interest income | Average recorded | Interest income | Average recorded | Interest income |
|                                 |                  |                 |                  |                 |                  |                 |

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|   | investment | recognized | investment | recognized | investment | recognized |
|---|------------|------------|------------|------------|------------|------------|
| Impaired loans with an allowance:             |            |            |            |            |            |            |
| Commercial                                    | \$30       | \$—        | \$50       | \$1        | \$61       | \$1        |
| Commercial real estate                        | 2          | —          | 2          | —          | 26         | —          |
| Financial institutions                        | —          | —          | 1          | —          | 1          | —          |
| Wealth management loans and mortgages         | 10         | —          | 19         | —          | 28         | —          |
| Foreign                                       | 9          | —          | 9          | —          | 9          | —          |
| Total impaired loans with an allowance        | 51         | —          | 81         | 1          | 125        | 1          |
| Impaired loans without an allowance:          |            |            |            |            |            |            |
| Commercial                                    | 4          | —          | 4          | —          | —          | —          |
| Commercial real estate                        | 7          | —          | 13         | —          | 2          | —          |
| Financial institutions                        | 2          | —          | 2          | —          | 2          | —          |
| Wealth management loans and mortgages         | 4          | —          | 4          | —          | 6          | —          |
| Total impaired loans without an allowance (a) | 17         | —          | 23         | —          | 10         | —          |
| Total impaired loans                          | \$68       | \$—        | \$104      | \$1        | \$135      | \$1        |

(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.

## Notes to Consolidated Financial Statements (continued)

| Impaired loans<br><br>(in millions)           | Year-to-date<br>Sept. 30, 2013    |                                  | Sept. 30, 2012                    |                                  |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|   | Average<br>recorded<br>investment | Interest<br>income<br>recognized | Average<br>recorded<br>investment | Interest<br>income<br>recognized |
| Impaired loans with an allowance:             |                                   |                                  |                                   |                                  |
| Commercial                                    | \$43                              | \$1                              | \$53                              | \$3                              |
| Commercial real estate                        | 6                                 | —                                | 31                                | —                                |
| Financial institutions                        | —                                 | —                                | 9                                 | —                                |
| Wealth management loans and mortgages         | 18                                | —                                | 28                                | —                                |
| Foreign                                       | 9                                 | —                                | 10                                | —                                |
| Total impaired loans with an allowance        | 76                                | 1                                | 131                               | 3                                |
| Impaired loans without an allowance:          |                                   |                                  |                                   |                                  |
| Commercial                                    | 2                                 | —                                | —                                 | —                                |
| Commercial real estate                        | 7                                 | —                                | 3                                 | —                                |
| Financial institutions                        | 2                                 | —                                | 2                                 | —                                |
| Wealth management loans and mortgages         | 4                                 | —                                | 4                                 | —                                |
| Total impaired loans without an allowance (a) | 15                                | —                                | 9                                 | —                                |
| Total impaired loans                          | \$91                              | \$1                              | \$140                             | \$3                              |

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

| Impaired loans<br><br>(in millions)           | Sept. 30, 2013         |                                |                          | Dec. 31, 2012          |                                |                          |
|---|------------------------|--------------------------------|--------------------------|------------------------|--------------------------------|--------------------------|
|   | Recorded<br>investment | Unpaid<br>principal<br>balance | Related<br>allowance (a) | Recorded<br>investment | Unpaid<br>principal<br>balance | Related<br>allowance (a) |
| Impaired loans with an allowance:             |                        |                                |                          |                        |                                |                          |
| Commercial                                    | \$15                   | \$19                           | \$3                      | \$57                   | \$61                           | \$12                     |
| Commercial real estate                        | 2                      | 3                              | 1                        | 15                     | 16                             | 1                        |
| Financial institutions                        | —                      | —                              | —                        | 1                      | 1                              | —                        |
| Wealth management loans and mortgages         | 10                     | 10                             | 3                        | 28                     | 28                             | 7                        |
| Foreign                                       | 9                      | 17                             | 4                        | 9                      | 17                             | 4                        |
| Total impaired loans with an allowance        | 36                     | 49                             | 11                       | 110                    | 123                            | 24                       |
| Impaired loans without an allowance:          |                        |                                |                          |                        |                                |                          |
| Commercial                                    | —                      | —                              | N/A                      | —                      | —                              | N/A                      |
| Commercial real estate                        | 1                      | 2                              | N/A                      | 2                      | 2                              | N/A                      |
| Financial institutions                        | 1                      | 7                              | N/A                      | 1                      | 8                              | N/A                      |
| Wealth management loans and mortgages         | 3                      | 3                              | N/A                      | 4                      | 4                              | N/A                      |
| Total impaired loans without an allowance (b) | 5                      | 12                             | N/A                      | 7                      | 14                             | N/A                      |
| Total impaired loans (c)                      | \$41                   | \$61                           | \$11                     | \$117                  | \$137                          | \$24                     |

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

(b)

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

- (c) Excludes an aggregate of \$1 million and \$2 million of impaired loans in amounts individually less than \$1 million at Sept. 30, 2013 and Dec. 31, 2012, respectively. The allowance for loan loss associated with these loans totaled less than \$1 million at both Sept. 30, 2013 and Dec. 31, 2012.

## Notes to Consolidated Financial Statements (continued)

## Past due loans

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

| Past due loans and still accruing interest<br>(in millions) | Sept. 30, 2013      |       |      | Total past due | Dec. 31, 2012       |       |     | Total past due |
|---|---------------------|-------|------|----------------|---------------------|-------|-----|----------------|
|   | Days past due 30-59 | 60-89 | >90  |                | Days past due 30-59 | 60-89 | >90 |                |
| Domestic:   |                     |       |      |                |                     |       |     |                |
| Commercial real estate                                      | \$28                | \$3   | \$—  | \$31           | \$44                | \$—   | \$— | \$44           |
| Wealth management loans and mortgages                       | 23                  | 3     | 6    | 32             | 33                  | 7     | 1   | 41             |
| Commercial  | —                   | —     | —    | —              | —                   | 60    | —   | 60             |
| Other residential mortgages                                 | 24                  | 4     | 7    | 35             | 50                  | 9     | 5   | 64             |
| Total domestic  | 75                  | 10    | 13   | 98             | 127                 | 76    | 6   | 209            |
| Foreign   | —                   | —     | —    | —              | —                   | —     | —   | —              |
| Total past due loans  | \$75                | \$10  | \$13 | \$98           | \$127               | \$76  | \$6 | \$209          |

## Troubled debt restructurings (“TDRs”)

A modified loan is considered a TDR if the debtor is experiencing financial difficulties and the creditor grants a concession to the debtor that would not

otherwise be considered. A TDR may include a transfer of real estate or other assets from the debtor to the creditor, or a modification of the term of the loan. Not all modified loans are considered TDRs.

The following table presents TDRs that occurred in the third quarter of 2013, second quarter of 2013 and the third quarter of 2012.

| TDRs<br>(dollars in millions)         | 3Q13                |                                 |                                 | 2Q13                |                                 |                                 | 3Q12                |                                 |                                 |
|---------------------------------------|---------------------|---------------------------------|---------------------------------|---------------------|---------------------------------|---------------------------------|---------------------|---------------------------------|---------------------------------|
|                                       | Number of contracts | Outstanding recorded investment | Outstanding recorded investment | Number of contracts | Outstanding recorded investment | Outstanding recorded investment | Number of contracts | Outstanding recorded investment | Outstanding recorded investment |
| Other residential mortgages           | 34                  | \$8                             | \$9                             | 28                  | \$5                             | \$7                             | 48                  | \$14                            | \$14                            |
| Wealth management loans and mortgages | —                   | —                               | —                               | —                   | —                               | —                               | 4                   | 2                               | 2                               |
| Total TDRs                            | 34                  | \$8                             | \$9                             | 28                  | \$5                             | \$7                             | 52                  | \$16                            | \$16                            |

Other residential mortgages

The modifications of the other residential mortgage loans in the third quarter of 2013, second quarter of 2013 and third quarter of 2012 consisted of reducing the stated interest rates, and in certain cases, a forbearance of default and extending the maturity dates. The value of modified loans is based on the fair value of the collateral. Probable loss factors are applied to the value of the modified loans to determine the allowance for credit losses.

Wealth management loans and mortgages

The modifications of the wealth management loans and mortgages in the third quarter of 2012 consisted of changes in payment terms and extensions of the

maturity dates. The difference between the book value of the loan and the estimated fair value of the collateral is included in the allowance for credit losses.

TDRs that subsequently defaulted

There were 10 residential mortgage loans that had been restructured in a TDR during the previous 12 months and have subsequently defaulted in the third quarter of 2013. The total recorded investment of these loans was \$2 million.



## Notes to Consolidated Financial Statements (continued)

## Credit quality indicators

Our credit strategy is to focus on investment grade names to support cross-selling opportunities and avoid single name/industry concentrations. Each customer is assigned an internal credit rating which is

mapped to an external rating agency grade equivalent based upon a number of dimensions which are continually evaluated and may change over time.

The following tables set forth information about credit quality indicators.

## Commercial loan portfolio

## Commercial loan portfolio – Credit risk profile by creditworthiness category

| (in millions)       | Commercial        |                  | Commercial real estate |                  | Financial institutions |                 |
|---------------------|-------------------|------------------|------------------------|------------------|------------------------|-----------------|
|                     | Sept. 30,<br>2013 | Dec. 31,<br>2012 | Sept. 30,<br>2013      | Dec. 31,<br>2012 | Sept. 30,<br>2013      | Dec 31,<br>2012 |
| Investment grade    | \$1,287           | \$1,064          | \$1,514                | \$1,289          | \$11,003               | \$9,935         |
| Noninvestment grade | 357               | 353              | 473                    | 451              | 1,672                  | 1,353           |
| Total               | \$1,644           | \$1,417          | \$1,987                | \$1,740          | \$12,675               | \$11,288        |

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

## Wealth management loans and mortgages

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

| (in millions)               | Sept. 30, 2013 | Dec. 31, 2012 |
|-----------------------------|----------------|---------------|
| Wealth management loans:    |                |               |
| Investment grade            | \$4,687        | \$4,597       |
| Noninvestment grade         | 63             | 125           |
| Wealth management mortgages | 4,694          | 4,142         |
| Total                       | \$9,444        | \$8,864       |

Wealth management non-mortgage loans are not typically rated by external rating agencies. A majority of the wealth management loans are secured by the customers' investment management accounts or custody accounts. Eligible assets pledged for these loans are typically investment-grade, fixed-income securities, equities and/or mutual funds. Internal ratings for this portion of the wealth management portfolio, therefore, would equate to investment-grade external ratings. Wealth management loans are provided to select customers based on the pledge of

other types of assets, including business assets, fixed assets or a modest amount of commercial real estate. For the loans collateralized by other assets, the credit quality of the obligor is carefully analyzed, but we do not consider this

portfolio of loans to be investment grade.

Credit quality indicators for wealth management mortgages are not correlated to external ratings. Wealth management mortgages are typically loans to high-net-worth individuals, which are secured primarily by residential property. These loans are primarily interest-only adjustable rate mortgages with an average loan-to-value ratio of 64% at origination. In the wealth management portfolio, less than 1% of the mortgages were past due at Sept. 30, 2013.

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

#### Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled \$1,433 million at Sept. 30, 2013 and \$1,632 million at Dec. 31, 2012. These loans are not typically correlated to external ratings. Included in this portfolio at Sept. 30, 2013 are \$434 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of Sept. 30, 2013, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 76% at origination and 22% of the serviced loan

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Notes to Consolidated Financial Statements (continued)

balance was at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, the tri-state area (New York, New Jersey and Connecticut) and Maryland.

Overdrafts

Overdrafts primarily relate to custody and securities clearance clients and totaled \$4,837 million at Sept. 30, 2013 and \$5,298 million at Dec. 31, 2012. Overdrafts occur on a daily basis in the custody and securities clearance business and are generally repaid within two business days.

Margin loans

We had \$15,146 million of secured margin loans on our balance sheet at Sept. 30, 2013 compared with \$13,397 million at Dec. 31, 2012. Margin loans are collateralized with marketable securities and borrowers are required to maintain a daily collateral margin in excess of 100% of the value of the loan. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to margin loans.

Other loans

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

Reverse repurchase agreements

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

Matter related to Sentinel

BNY Mellon loaned \$312 million to an asset manager, Sentinel Management Group, Inc. ("Sentinel"), secured by securities and cash. Sentinel filed for bankruptcy in 2007, and BNY Mellon's status as a secured lender is the subject of continuing litigation. In 2010, the district court ruled in favor of BNY Mellon, and the loan was repaid. An appellate court reversed the district court's ruling on Aug. 26, 2013, and remanded to the district court for further proceedings. BNY Mellon held no loans to Sentinel at Sept. 30, 2013. Our status as a secured creditor is subject to ongoing litigation and therefore the loan could be reestablished at some point in the future. For additional information on our legal proceedings related to this matter, see Note 18 of the Notes to Consolidated Financial Statements.

Note 6 - Goodwill and intangible assets

Impairment testing

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

BNY Mellon's three business segments include seven reporting units for which goodwill impairment testing is performed on an annual basis. In the second quarter of 2013, BNY Mellon conducted an annual goodwill impairment test on all seven reporting units. The estimated fair value of the seven reporting units exceeded the carrying value and no goodwill impairment was recognized.

Goodwill

The tables below provide a breakdown of goodwill by business.

| Goodwill by business<br>(in millions) | Investment<br>Management | Investment<br>Services | Other | Consolidated |
|---------------------------------------|--------------------------|------------------------|-------|--------------|
| Balance at Dec. 31, 2012              | \$9,508                  | \$8,517                | \$50  | \$18,075     |
| Disposition                           | (69                      | ) —                    | —     | (69          |
| Foreign exchange translation          | (11                      | ) 13                   | —     | 2            |
| Other (a)                             | 17                       | —                      | —     | 17           |
| Balance at Sept. 30, 2013             | \$9,445                  | \$8,530                | \$50  | \$18,025     |

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

## Notes to Consolidated Financial Statements (continued)

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

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

## Intangible assets

The tables below provide a breakdown of intangible assets by business. In the second quarter of 2013, we recorded an \$8 million impairment charge related to the write-down of the value of a customer contract intangible in the Investment Services business to its fair value.

| Intangible assets – net carrying amount by<br>business<br>(in millions) | Investment<br>Management | Investment<br>Services | Other   | Consolidated |   |
|---|--------------------------|------------------------|---------|--------------|---|
| Balance at Dec. 31, 2012  | \$2,228                  | \$1,732                | \$849   | \$4,809      |   |
| Disposition   | (7                       | ) (1                   | ) —     | (8           | ) |
| Amortization  | (113                     | ) (147                 | ) (a) — | (260         | ) |
| Foreign exchange translation  | (1                       | ) 1                    | —       | —            |   |
| Other (b)   | (13                      | ) (1                   | ) —     | (14          | ) |
| Balance at Sept. 30, 2013   | \$2,094                  | \$1,584                | \$849   | \$4,527      |   |

(a) Includes an \$8 million intangible asset impairment recorded in the second quarter of 2013.

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

| Intangible assets – net carrying amount by<br>business<br>(in millions) | Investment<br>Management | Investment<br>Services | Other | Consolidated |   |
|---|--------------------------|------------------------|-------|--------------|---|
| Balance at Dec. 31, 2011  | \$2,382                  | \$1,922                | \$848 | \$5,152      |   |
| Amortization  | (144                     | ) (144                 | ) —   | (288         | ) |
| Foreign exchange translation  | 16                       | 2                      | —     | 18           |   |
| Other (a)   | —                        | (1                     | ) 1   | —            |   |
| Balance at Sept. 30, 2012   | \$2,254                  | \$1,779                | \$849 | \$4,882      |   |

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

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

| Intangible assets<br>(in millions) | Sept. 30, 2013              |                             |                           | Dec. 31, 2012   |                           |
|------------------------------------|-----------------------------|-----------------------------|---------------------------|---|---------------------------|
|                                    | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net<br>carrying<br>amount | Remaining<br>weighted-<br>average<br>amortization<br>period | Net<br>carrying<br>amount |

Subject to amortization:

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|  |         |          |           |          |         |
|--|---------|----------|-----------|----------|---------|
| Customer relationships—Investment Management | \$2,053 | \$(1,426 | ) \$627   | 12 years | \$761   |
| Customer contracts—Investment Services       | 2,350   | (1,156   | ) 1,194   | 12 years | 1,335   |
| Other  | 76      | (58      | ) 18      | 5 years  | 25      |
| Total subject to amortization                | 4,479   | (2,640   | ) 1,839   | 12 years | 2,121   |
| Not subject to amortization: (a)             |         |          |           |          |         |
| Trade name                                   | 1,368   | N/A      | 1,368     | N/A      | 1,368   |
| Customer relationships                       | 1,320   | N/A      | 1,320     | N/A      | 1,320   |
| Total not subject to amortization            | 2,688   | N/A      | 2,688     | N/A      | 2,688   |
| Total intangible assets                      | \$7,167 | \$(2,640 | ) \$4,527 | N/A      | \$4,809 |

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

N/A - Not applicable.

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## 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<br>Dec. 31, | Estimated amortization expense<br>(in millions) |       |
|--------------------------------|---|-------|
| 2013                           |   | \$344 |
| 2014                           |   | 301   |
| 2015                           |   | 269   |
| 2016                           |   | 240   |
| 2017                           |   | 215   |

## Note 7 - Other assets

| Other assets<br>(in millions)                     | Sept. 30,<br>2013 | Dec. 31,<br>2012 |
|---|-------------------|------------------|
| Accounts receivable                               | \$5,529           | \$4,255          |
| Corporate/bank owned life insurance               | 4,424             | 4,360            |
| Equity in joint venture and other investments (a) | 3,021             | 2,664            |
| Income taxes receivable                           | 2,399             | 3,099            |
| Fails to deliver                                  | 2,076             | 1,148            |
| Software  | 1,210             | 1,117            |
| Fair value of hedging derivatives                 | 1,187             | 989              |
| Prepaid pension assets                            | 470               | 419              |
| Prepaid expenses                                  | 438               | 508              |
| Due from customers on acceptances                 | 211               | 376              |
| Other   | 1,736             | 1,533            |
| Total other assets                                | \$22,701          | \$20,468         |

(a) Includes Federal Reserve Bank stock of \$440 million and \$436 million, respectively, at cost.

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

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

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

## Seed capital and private equity investments valued using NAV

| Sept. 30, 2013 |          |            |            | Dec. 31, 2012 |          |            |            |
|----------------|----------|------------|------------|---------------|----------|------------|------------|
| Fair           | Unfunded | Redemption | Redemption | Fair          | Unfunded | Redemption | Redemption |

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| (dollar amounts in millions)     | value | commitments | frequency      | notice period | value | commitments | frequency      | notice period |
|----------------------------------|-------|-------------|----------------|---------------|-------|-------------|----------------|---------------|
| Seed capital and other funds (a) | \$210 | \$ 27       | Monthly-yearly | 3-45 days     | \$153 | \$ 31       | Monthly-yearly | 3-45 days     |
| Private equity funds (b)         | 85    | 12          | N/A            | N/A           | 99    | 13          | N/A            | N/A           |
| Total                            | \$295 | \$ 39       |                |               | \$252 | \$ 44       |                |               |

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

(a) Redemption notice periods vary by fund.

(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.

N/A - Not applicable.

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Notes to Consolidated Financial Statements (continued)

Note 8 - Net interest revenue

The following table provides the components of net interest revenue presented on the consolidated income statement.

| Net interest revenue<br>(in millions)                                   | Quarter ended     |                  |                   | Year-to-date      |                   |
|---|-------------------|------------------|-------------------|-------------------|-------------------|
|   | Sept. 30,<br>2013 | June 30,<br>2013 | Sept. 30,<br>2012 | Sept. 30,<br>2013 | Sept. 30,<br>2012 |
| Interest revenue  |                   |                  |                   |                   |                   |
| Non-margin loans  | \$ 169            | \$ 171           | \$ 167            | \$ 505            | \$ 505            |
| Margin loans  | 41                | 40               | 42                | 119               | 126               |
| Securities:   |                   |                  |                   |                   |                   |
| Taxable   | 460               | 453              | 477               | 1,354             | 1,464             |
| Exempt from federal income taxes  | 25                | 23               | 24                | 72                | 59                |
| Total securities  | 485               | 476              | 501               | 1,426             | 1,523             |
| Deposits in banks   | 70                | 68               | 99                | 209               | 306               |
| Deposits with the Federal Reserve and other central banks               | 39                | 31               | 33                | 101               | 115               |
| Federal funds sold and securities purchased under resale agreements     | 13                | 10               | 8                 | 33                | 26                |
| Trading assets  | 38                | 40               | 27                | 113               | 63                |
| Total interest revenue  | 855               | 836              | 877               | 2,506             | 2,664             |
| Interest expense  |                   |                  |                   |                   |                   |
| Deposits  | 26                | 27               | 36                | 83                | 122               |
| Federal funds purchased and securities sold under repurchase agreements | (4                | )(6              | )(2               | )(13              | )(2               |
| Trading liabilities   | 9                 | 11               | 7                 | 29                | 17                |
| Other borrowed funds  | 1                 | 1                | 3                 | 4                 | 14                |
| Customer payables   | 2                 | 2                | 2                 | 6                 | 6                 |
| Long-term debt  | 49                | 44               | 82                | 149               | 259               |
| Total interest expense  | 83                | 79               | 128               | 258               | 416               |
| Net interest revenue  | \$ 772            | \$ 757           | \$ 749            | \$ 2,248          | \$ 2,248          |

Note 9 - Employee benefit plans

The components of net periodic benefit cost are as follows.

| Net periodic benefit cost (credit)<br>(in millions) | Sept. 30, 2013                  |                                |                            | Quarter ended<br>June 30, 2013  |                                |                            | Sept. 30, 2012                  |                                |                            |
|---|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|
|   | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits |
| Service cost  | \$ 16                           | \$ 9                           | \$ 1                       | \$ 16                           | \$ 9                           | \$ 1                       | \$ 15                           | \$ 8                           | \$ 1                       |
| Interest cost                                       | 43                              | 10                             | 2                          | 43                              | 10                             | 2                          | 42                              | 9                              | 3                          |
| Expected return on assets                           | (73                             | )(12                           | )(2                        | (73                             | )(12                           | )(2                        | (68                             | )(12                           | )(2                        |
| Other   | 49                              | 3                              | 1                          | 46                              | 4                              | 1                          | 38                              | 4                              | 3                          |
| Net periodic benefit cost                           | \$ 35                           | \$ 10                          | \$ 2                       | \$ 32                           | \$ 11                          | \$ 2                       | \$ 27                           | \$ 9                           | \$ 5                       |

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| Net periodic benefit cost (credit) | Year-to-date   |          |          | Sept. 30, 2012 |          |          |
|------------------------------------|----------------|----------|----------|----------------|----------|----------|
|                                    | Sept. 30, 2013 |          |          | Domestic       | Foreign  | Health   |
| (in millions)                      | pension        | pension  | care     | pension        | pension  | care     |
|                                    | benefits       | benefits | benefits | benefits       | benefits | benefits |
| Service cost                       | \$48           | \$27     | \$3      | \$45           | \$24     | \$3      |
| Interest cost                      | 129            | 30       | 6        | 126            | 27       | 9        |
| Expected return on assets          | (219           | )(36     | )(6 )    | (204           | )(36     | )(6 )    |
| Other                              | 142            | 11       | 3        | 114            | 10       | 9        |
| Net periodic benefit cost          | \$100          | \$32     | \$6      | \$81           | \$25     | \$15     |

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## Notes to Consolidated Financial Statements (continued)

## Note 10 - Restructuring charges

The aggregate restructuring charge is included in M&I, litigation and restructuring charges on the income statement and reported in the Other segment. Restructuring charges are corporate initiatives and not directly related to the operating performance of the businesses. Severance payments are primarily paid over the salary continuance period in accordance with the separation plan.

## Operational Excellence Initiatives

In 2011, we announced our Operational Excellence Initiatives which include an expense reduction initiative impacting approximately 1,500 positions, as well as additional initiatives to transform operations, technology and corporate services that will increase productivity and reduce the growth rate of expenses. We recorded a pre-tax restructuring charge of \$107 million related to the Operational Excellence Initiatives in 2011. In the third quarter of 2013, we recorded a net charge of \$15 million reflecting additional severance charges. The following table presents the activity in the restructuring reserve related to the Operational Excellence Initiatives through Sept. 30, 2013.

| Operational Excellence Initiatives 2011 – restructuring reserve activity<br>(in millions) | Severance | Other | Total |   |
|---|-----------|-------|-------|---|
| Original restructuring charge   | \$78      | \$29  | \$107 |   |
| Net additional charges (net recovery/gain)  | 62        | (57)  | )5    |   |
| Utilization   | (70       | )28   | (42   | ) |
| Balance at June 30, 2013  | \$70      | \$—   | \$70  |   |
| Net additional charges  | 15        | —     | 15    |   |
| Utilization   | (14       | )—    | (14   | ) |
| Balance at Sept. 30, 2013   | \$71      | \$—   | \$71  |   |

The table below presents the restructuring charge if it had been allocated by business.

| Operational Excellence Initiatives 2011 – restructuring charge (recovery) by<br>business<br>(in millions) | 3Q13 | 2Q13  | Total charges<br>since inception |
|---|------|-------|----------------------------------|
| Investment Management   | \$(2 | )\$(1 | )\$46                            |
| Investment Services   | 16   | 4     | 80                               |
| Other segment (including Business Partners)   | 1    | (1    | )1                               |
| Total restructuring charge  | \$15 | \$2   | \$127                            |

## Note 11 - Income taxes

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

| Effective tax rate  | Nine months ended |                |   |
|---|-------------------|----------------|---|
|   | Sept. 30, 2013    | Sept. 30, 2012 |   |
| Federal rate  | 35.0              | % 35.0         | % |
| State and local income taxes, net of federal income tax benefit | 3.0               | 2.3            |   |
| Tax-exempt income   | (2.8              | ) (3.6         | ) |
| Foreign operations  | (4.5              | ) (5.1         | ) |

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|                |      |   |       |   |
|----------------|------|---|-------|---|
| Tax credits    | (3.4 | ) | (5.0  | ) |
| Tax litigation | 19.8 |   | —     |   |
| Other - net    | (1.6 | ) | (0.3  | ) |
| Effective rate | 45.5 |   | %23.3 | % |

As previously disclosed, on Nov. 10, 2009 BNY Mellon filed a petition with the U.S. Tax Court challenging the Internal Revenue Service's ("IRS") disallowance of certain foreign tax credits claimed for the 2001 and 2002 tax years. Trial was held from April 16 to May 17, 2012. On Feb. 11, 2013, BNY Mellon received an adverse decision from the U.S. Tax Court. On Sept. 23, 2013, the U.S. Tax Court amended its prior ruling to allow BNY Mellon an interest expense deduction and to exclude certain items from taxable income. These items for all years involved and related interest increased after-tax income in the third quarter of 2013 by \$261 million. The U.S. Tax Court has not entered a final decision; it is possible these amounts may be adjusted. Finally, we intend to appeal the Tax Court's Feb. 11, 2013 decision disallowing the foreign tax credits.

Our total tax reserves as of Sept. 30, 2013 were \$840 million compared with \$1,060 million at June 30, 2013. If these tax reserves were unnecessary, \$840 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 at Sept. 30, 2013 is accrued interest, where applicable, of \$198 million. The additional tax expense related to interest for the nine months ended Sept. 30, 2013 was \$187 million compared with \$10 million for the nine months ended Sept. 30, 2012.

It is reasonably possible the total reserve for uncertain tax positions could decrease within the next 12 months by an amount up to \$72 million as a result of

## Notes to Consolidated Financial Statements (continued)

adjustments related to tax years that are still subject to examination.

Our federal income tax returns are closed for all periods through 2005. The 2006 year remains open to examination. The years 2007 and 2008 are also closed to further examination; however, one matter is before the IRS Appeals Division. The years 2009 and 2010 are currently under examination. Our New York State and New York City income tax returns are closed to examination through 2010. Our UK income tax returns are closed to examination through 2010.

## Note 12 - Securitizations and variable interest entities

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, Consolidation.

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

The following tables present the incremental assets and liabilities included in BNY Mellon's consolidated financial statements, after applying intercompany eliminations, as of Sept. 30, 2013 and Dec. 31, 2012, based on the assessments performed in accordance with ASC 810 and ASU 2009-17. The net assets of any consolidated VIE are solely available to settle the liabilities of the VIE and to settle any investors' ownership liquidation requests, including any seed capital invested in the VIE by BNY Mellon.

Investments consolidated under ASC 810 and ASU 2009-17  
at Sept. 30, 2013

| (in millions)                              | Investment<br>Management<br>funds | Securitizations | Total<br>consolidated<br>investments |
|--|-----------------------------------|-----------------|--------------------------------------|
| Available-for-sale                         | \$—                               | \$488           | \$488                                |
| Trading assets                             | 10,725                            | —               | 10,725                               |
| Other assets                               | 966                               | —               | 966                                  |
| Total assets                               | \$11,691                          | \$488           | \$12,179                             |
| Trading liabilities                        | \$10,380                          | \$—             | \$10,380                             |
| Other liabilities                          | 78                                | 442             | 520                                  |
| Total liabilities                          | \$10,458                          | \$442           | \$10,900                             |
| Non-redeemable noncontrolling<br>interests | \$821                             | \$—             | \$821                                |

Investments consolidated under ASC 810 and ASU 2009-17  
at Dec. 31, 2012

| (in millions) | Investment | Securitizations | Total |
|---------------|------------|-----------------|-------|
|---------------|------------|-----------------|-------|

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|  | Management<br>funds |       | consolidated<br>investments |
|--|---------------------|-------|-----------------------------|
| Available-for-sale                         | \$—                 | \$499 | \$499                       |
| Trading assets                             | 10,961              | —     | 10,961                      |
| Other assets                               | 520                 | —     | 520                         |
| Total assets                               | \$11,481            | \$499 | \$11,980                    |
| Trading liabilities                        | \$10,152            | \$—   | \$10,152                    |
| Other liabilities                          | 29                  | 461   | 490                         |
| Total liabilities                          | \$10,181            | \$461 | \$10,642                    |
| Non-redeemable noncontrolling<br>interests | \$833               | \$—   | \$833                       |

BNY Mellon is not contractually required to provide financial or any other support to any of our VIEs. Additionally, creditors of any consolidated VIEs do not have any recourse to the general credit of BNY Mellon.

Non-consolidated VIEs

As of Sept. 30, 2013 and Dec. 31, 2012, the following assets related to the VIEs, where BNY Mellon is not the primary beneficiary, are included in our consolidated financial statements.

| Non-consolidated VIEs at Sept. 30, 2013<br>(in millions) |        |             | Maximum loss exposure |
|--|--------|-------------|-----------------------|
|  | Assets | Liabilities |                       |
| Other  | \$137  | \$—         | \$137                 |

| Non-consolidated VIEs at Dec. 31, 2012<br>(in millions) |        |             | Maximum loss exposure |
|---|--------|-------------|-----------------------|
|   | Assets | Liabilities |                       |
| Other   | \$100  | \$—         | \$100                 |

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

## Notes to Consolidated Financial Statements (continued)

## Note 13 - Preferred stock

BNY Mellon has 100 million authorized shares of preferred stock with a par value of \$0.01. The table below presents a summary of BNY Mellon's preferred stock issued and outstanding at Sept. 30, 2013 and Dec. 31, 2012.

| Preferred stock summary                       |   | Liquidation preference per share (in dollars)   | Total shares issued and outstanding |               | Carrying value (a) |               |          |
|---|---|---|-------------------------------------|---------------|--------------------|---------------|----------|
| (dollars in millions, unless otherwise noted) |   |   | Sept. 30, 2013                      | Dec. 31, 2012 | Sept. 30, 2013     | Dec. 31, 2012 |          |
|   |   | Per annum dividend rate   |                                     |               |                    |               |          |
|   |   | Greater of (i) three-month LIBOR plus 0.565% for the related distribution period; or (ii) 4.000%                              |                                     |               |                    |               |          |
| Series A                                      | Noncumulative Perpetual Preferred Stock |   | \$ 100,000                          | 5,001         | 5,001              | \$ 500        | \$ 500   |
| Series C                                      | Noncumulative Perpetual Preferred Stock | 5.2   | % \$ 100,000                        | 5,825         | 5,825              | \$ 568        | \$ 568   |
| Series D                                      | Noncumulative Perpetual Preferred Stock | 4.50% commencing Dec. 20, 2013 to but excluding June 20, 2023, then a floating rate equal to the three-month LIBOR plus 2.46% | \$ 100,000                          | 5,000         | —                  | \$ 494        | \$ —     |
| Total   |   |   |                                     | 15,826        | 10,826             | \$ 1,562      | \$ 1,068 |

(a) The carrying value of the Series C and Series D preferred stock is recorded net of issuance costs.

Holders of both the Series A and Series C preferred stock are entitled to receive dividends on each dividend payment date (March 20, June 20, September 20 and December 20 of each year), if declared by BNY Mellon's Board of Directors. BNY Mellon will pay dividends on the Series D preferred stock, if declared by our board of directors, on each June 20 and December 20, to but excluding June 20, 2023; and on each March 20, June 20, September 20 and December 20, from and including June 20, 2023. BNY Mellon's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, shares of our common stock or any of our shares that rank junior to the preferred stock as to the payment of dividends and/or the distribution of any assets on any liquidation, dissolution or winding-up of BNY Mellon will be prohibited, subject to certain

restrictions, in the event that we do not declare and pay in full preferred dividends for the then current dividend period of the Series A preferred stock or the last preceding dividend period of the Series C and Series D preferred stock.

All of the outstanding shares of the Series A preferred stock are owned by Mellon Capital IV, which will pass through any dividend on the Series A preferred stock to the holders of its Normal Preferred Capital Securities. All of the outstanding shares of the Series C and Series D preferred stock are held by the depositary of the depositary shares, which will pass through the applicable portion of any dividend on the Series C and Series D preferred stock to the holders of record of their respective depositary shares.

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## Notes to Consolidated Financial Statements (continued)

The following table presents a summary of the preferred stock dividends.

| Preferred stock dividends (a) | Declaration date | Record date   | Payment date   | Approximate dividend paid per share (in dollars) |
|-------------------------------|------------------|---------------|----------------|--|
| Series A (b)                  | Oct. 16, 2013    | Dec. 5, 2013  | Dec. 20, 2013  | \$10.1111  |
|                               | July 17, 2013    | Sept. 5, 2013 | Sept. 20, 2013 | \$10.2222  |
|                               | April 9, 2013    | June 5, 2013  | June 20, 2013  | \$10.2222  |
|                               | Jan. 16, 2013    | March 5, 2013 | March 20, 2013 | \$10.0000  |
| Series C (c)                  | Oct. 16, 2013    | Dec. 5, 2013  | Dec. 20, 2013  | \$0.3250   |
|                               | July 17, 2013    | Sept. 5, 2013 | Sept. 20, 2013 | \$0.3250   |
|                               | April 9, 2013    | June 5, 2013  | June 20, 2013  | \$0.3250   |
|                               | Jan. 16, 2013    | March 5, 2013 | March 20, 2013 | \$0.3250   |
| Series D (d)                  | Oct. 16, 2013    | Dec. 5, 2013  | Dec. 20, 2013  | \$26.6250  |

(a) Dividends are noncumulative.

(b) Dividend per Normal Preferred Capital Security of Mellon Capital IV, each representing 1/100th interest in a share of Series A preferred stock.

(c) Dividend per depository share, each representing a 1/4,000th interest in a share of Series C preferred stock.

(d) Dividend per depository share, each representing a 1/100th interest in a share of Series D preferred stock.

The preferred stock is not subject to the operation of a sinking fund and is not convertible into, or exchangeable for, shares of our common stock or any other class or series of our other securities. Subject to the restrictions in BNY Mellon's 2007 replacement capital covenant, subsequently amended on May 8 and Sept. 11, 2012, we may redeem the Series A preferred stock, in whole or in part, at our option. We may also, at our option, redeem the shares of the Series C preferred stock in whole or in part, on or after the dividend payment date in September 2017 and the Series D preferred stock in whole or in part, on or after the dividend payment date in June 2023.

Both the Series C or Series D preferred stock can be redeemed in whole but not in part at any time within 90 days following a regulatory capital treatment event (as defined in the Certificate of Designations of the Series C preferred stock and the Certificate of Designations of the Series D preferred stock).

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

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Notes to Consolidated Financial Statements (continued)

Note 14 - Other comprehensive income (loss)

Components of other comprehensive income (loss)

| (in millions)   | Quarter ended<br>Sept. 30, 2013 |                             |                     | June 30, 2013     |                             |                     | Sept. 30, 2012    |                             |                     |
|---|---------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|
|   | Pre-tax<br>amount               | Tax<br>(expense)<br>benefit | After-tax<br>amount | Pre-tax<br>amount | Tax<br>(expense)<br>benefit | After-tax<br>amount | Pre-tax<br>amount | Tax<br>(expense)<br>benefit | After-tax<br>amount |
| Foreign currency translation:   |                                 |                             |                     |                   |                             |                     |                   |                             |                     |
| Foreign currency translation adjustments arising during the period  | \$295                           | \$ 90                       | \$ 385              | \$(9 )            | \$ 14                       | \$ 5                | \$134             | \$ 35                       | \$ 169              |
| Total foreign currency translation  | 295                             | 90                          | 385                 | (9 )              | 14                          | 5                   | 134               | 35                          | 169                 |
| Unrealized gain (loss) on assets available-for-sale:  |                                 |                             |                     |                   |                             |                     |                   |                             |                     |
| Unrealized gain (loss) arising during the period  | (112 )                          | 40                          | (72 )               | (1,215 )          | 479                         | (736 )              | 948               | (310 )                      | 638                 |
| Reclassification adjustment (a)   | (10 )                           | 8                           | (2 )                | (32 )             | 15                          | (17 )               | (22 )             | 7                           | (15 )               |
| Net unrealized gain (loss) on assets available-for-sale   | (122 )                          | 48                          | (74 )               | (1,247 )          | 494                         | (753 )              | 926               | (303 )                      | 623                 |
| Defined benefit plans:  |                                 |                             |                     |                   |                             |                     |                   |                             |                     |
| Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost (a) | 52                              | (21 )                       | 31                  | 51                | (20 )                       | 31                  | 45                | (17 )                       | 28                  |
| Total defined benefit plans   | 52                              | (21 )                       | 31                  | 51                | (20 )                       | 31                  | 45                | (17 )                       | 28                  |
| Unrealized gain (loss) on cash flow hedges:   |                                 |                             |                     |                   |                             |                     |                   |                             |                     |
| Unrealized hedge gain (loss) arising during period  | (57 )                           | 25                          | (32 )               | 13                | (6 )                        | 7                   | (704 )            | 288                         | (416 )              |
| Reclassification adjustment (a)   | 74                              | (30 )                       | 44                  | (27 )             | 11                          | (16 )               | 706               | (289 )                      | 417                 |
| Net unrealized gain (loss) on cash flow hedges  | 17                              | (5 )                        | 12                  | (14 )             | 5                           | (9 )                | 2                 | (1 )                        | 1                   |
| Total other comprehensive income (loss)   | \$242                           | \$ 112                      | \$ 354              | \$(1,219)         | \$ 493                      | \$(726 )            | \$1,107           | \$(286 )                    | \$ 821              |

The reclassification adjustment related to the unrealized gain (loss) on assets available-for-sale is recorded as net securities gains on the Consolidated Income Statement. The amortization of prior service credit, net loss and initial (a) obligation included in net periodic benefit cost is recorded as staff expense on the Consolidated Income Statement.

See Note 17 for the location of the reclassification adjustment related to cash flow hedges on the Consolidated Income Statement.

Components of other comprehensive income (loss)

| (in millions) | Year-to-date<br>Sept. 30, 2013 |                             |                     | Sept. 30, 2012    |                             |                     |
|---------------|--------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|
|               | Pre-tax<br>amount              | Tax<br>(expense)<br>benefit | After-tax<br>amount | Pre-tax<br>amount | Tax<br>(expense)<br>benefit | After-tax<br>amount |

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Foreign currency translation:

|   |          |        |        |           |        |          |   |
|---|----------|--------|--------|-----------|--------|----------|---|
| Foreign currency translation adjustments arising during the period  | \$57     | \$24   | \$81   | \$40      | \$36   | \$76     |   |
| Total foreign currency translation  | 57       | 24     | 81     | 40        | 36     | 76       |   |
| Unrealized gain (loss) on assets available-for-sale:  |          |        |        |           |        |          |   |
| Unrealized gain (loss) arising during the period  | (1,336   | )522   | (814   | ) 1,644   | (572   | )1,072   |   |
| Reclassification adjustment (a)   | (90      | )41    | (49    | ) (112    | )38    | (74      | ) |
| Net unrealized gain (loss) on assets available-for-sale   | (1,426   | )563   | (863   | ) 1,532   | (534   | )998     |   |
| Defined benefit plans:  |          |        |        |           |        |          |   |
| Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost (a) | 171      | (66    | )105   | 131       | (52    | )79      |   |
| Total defined benefit plans   | 171      | (66    | )105   | 131       | (52    | )79      |   |
| Unrealized gain (loss) on cash flow hedges:   |          |        |        |           |        |          |   |
| Unrealized hedge gain (loss) arising during period  | 127      | (51    | )76    | (691      | )283   | (408     | ) |
| Reclassification adjustment (a)   | (123     | )51    | (72    | ) 698     | (286   | )412     |   |
| Net unrealized gain (loss) on cash flow hedges  | 4        | —      | 4      | 7         | (3     | )4       |   |
| Total other comprehensive income (loss)   | \$(1,194 | )\$521 | \$(673 | ) \$1,710 | \$(553 | )\$1,157 |   |

The reclassification adjustment related to the unrealized gain (loss) on assets available-for-sale is recorded as net securities gains on the Consolidated Income Statement. The amortization of prior service credit, net loss and initial (a) obligation included in net periodic benefit cost is recorded as staff expense on the Consolidated Income Statement. See Note 17 for the location of the reclassification adjustment related to cash flow hedges on the Consolidated Income Statement.

Notes to Consolidated Financial Statements (continued)

Note 15 - Fair value measurement

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

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

Determination of fair value

Following is a description of our valuation methodologies for assets and liabilities measured at fair value. We have established processes for determining fair values. Fair value is based upon quoted market prices in active markets, where available. For financial instruments where quotes from recent exchange transactions are not available, we determine fair value based on discounted cash flow analysis, comparison to similar instruments, and the use of financial models. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Model-based pricing uses inputs of observable prices, where available, for interest rates, foreign exchange rates, option volatilities and other factors. Models are benchmarked and validated by an independent internal risk management function. Our valuation

process takes into consideration factors such as counterparty credit quality, liquidity, concentration concerns, and observability of model parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

Most derivative contracts are valued using internally developed models which are calibrated to observable market data and employ standard market pricing theory for their valuations. An initial “risk-neutral” valuation is performed on each position assuming time-discounting based on a AA credit curve. Then, to arrive at a fair value that incorporates counter-party 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, as implied by the credit default swap market. Accordingly, the valuation of our derivative position is sensitive to the current changes in our own credit spreads as well as those of our counterparties.

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

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

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

Notes to Consolidated Financial Statements (continued)

Valuation hierarchy

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

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

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

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

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

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

Securities

Where quoted prices are available in an active market, we classify the securities within Level 1 of

the valuation hierarchy. Securities include both long and short positions. Level 1 securities include highly liquid government bonds, money market funds, foreign covered bonds 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 agency and non-agency mortgage-backed securities, state and political subdivisions, commercial mortgage-backed securities, sovereign debt, corporate bonds and foreign covered bonds.

For securities where quotes from recent transactions are not available for identical securities, we determine fair value primarily based on pricing sources with reasonable levels of price transparency that employ financial models or obtain 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

marketplace and classify such securities as Level 2. Pricing sources discontinue pricing any specific security whenever they determine there is insufficient observable data to provide a good faith opinion on price.

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

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

In certain cases where there is limited activity or less transparency around inputs to the valuation, we classify those securities in Level 3 of the valuation

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Notes to Consolidated Financial Statements (continued)

hierarchy. Securities classified within Level 3 primarily include securities of state and political subdivisions and distressed debt securities.

At Sept. 30, 2013, more than 99% of our securities were valued by pricing sources with reasonable levels of price transparency. Less than 1% of our securities were priced based on economic models and non-binding dealer quotes, and are included in Level 3 of the ASC 820 hierarchy.

Consolidated collateralized loan obligations

BNY Mellon values assets in consolidated CLOs using observable market prices observed from the secondary loan market. The returns to the note holders are solely dependent on the assets and accordingly equal the value of those assets. Based on the structure of the CLOs, the valuation of the assets is attributable to the senior note holders. Changes in the values of assets and liabilities are reflected in the income statement as investment and other income and interest of investment management fund note holders, respectively. Consolidated CLOs are generally classified within Level 2 of the valuation hierarchy.

Derivatives

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

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

Loans and unfunded lending-related commitments

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

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

Seed capital

In our Investment Management business, we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors. As part of that activity, we make seed capital investments in certain funds. Seed capital is included in other assets. When applicable, we value seed capital



based on the published NAV of the fund. We include funds in which ownership interests in the fund are publicly traded in an active market and institutional funds in which investors trade in and out daily in Level 1 of the valuation hierarchy. We include open-end funds where investors are allowed to sell their ownership interest back to the fund less frequently than daily and where our interest in the fund contains no other rights or obligations in Level 2 of the valuation hierarchy. However, we generally include investments in funds that allow investors to sell their ownership interest back to the fund less frequently than monthly in Level 3, unless actual redemption prices are observable.

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

Notes to Consolidated Financial Statements (continued)

generally classify them in Level 3 of the valuation hierarchy.

Certain interests in securitizations

For certain interests in securitizations that are classified in securities available-for-sale, trading assets and long-term debt, we use discounted cash flow models, which generally include assumptions of projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and estimates of payments to third-party investors. When available, we compare our fair value estimates and assumptions to market activity and to the actual results of the securitized portfolio.

Private equity investments

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

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

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

The following tables present the financial instruments carried at fair value at Sept. 30, 2013 and Dec. 31, 2012, by caption on the consolidated balance sheet and by ASC 820 valuation hierarchy (as described above). We have included credit ratings information in certain of the tables because the information indicates the degree of credit risk to which we are exposed, and significant changes in ratings classifications could result in increased risk for us. There were no material transfers between Level 1 and Level 2 during the third quarter of 2013.

## Notes to Consolidated Financial Statements (continued)

Assets measured at fair value on a recurring basis at Sept. 30, 2013

| (dollar amounts in millions)                             | Level 1  | Level 2 | Level 3 | Netting (a) | Total carrying value |
|--|----------|---------|---------|-------------|----------------------|
| Available-for-sale securities:                           |          |         |         |             |                      |
| U.S. Treasury  | \$10,431 | \$—     | \$—     | \$—         | \$ 10,431            |
| U.S. Government agencies                                 | —        | 1,081   | —       | —           | 1,081                |
| Sovereign debt   | 40       | 10,528  | —       | —           | 10,568               |
| State and political subdivisions (b)                     | —        | 6,669   | 51      | —           | 6,720                |
| Agency RMBS  | —        | 26,671  | —       | —           | 26,671               |
| Alt-A RMBS   | —        | 258     | —       | —           | 258                  |
| Prime RMBS   | —        | 526     | —       | —           | 526                  |
| Subprime RMBS  | —        | 408     | —       | —           | 408                  |
| Other RMBS   | —        | 2,268   | —       | —           | 2,268                |
| Commercial MBS   | —        | 2,563   | —       | —           | 2,563                |
| Agency commercial MBS                                    | —        | 1,289   | —       | —           | 1,289                |
| Asset-backed CLOs  | —        | 1,528   | —       | —           | 1,528                |
| Other asset-backed securities                            | —        | 2,496   | —       | —           | 2,496                |
| Equity securities  | 23       | —       | —       | —           | 23                   |
| Money market funds (b)                                   | 941      | —       | —       | —           | 941                  |
| Corporate bonds  | —        | 1,504   | —       | —           | 1,504                |
| Other debt securities                                    | —        | 2,200   | —       | —           | 2,200                |
| Foreign covered bonds                                    | 2,193    | 662     | —       | —           | 2,855                |
| Alt-A RMBS (c)   | —        | 1,792   | —       | —           | 1,792                |
| Prime RMBS (c)   | —        | 850     | —       | —           | 850                  |
| Subprime RMBS (c)  | —        | 127     | —       | —           | 127                  |
| Total available-for-sale securities                      | 13,628   | 63,420  | 51      | —           | 77,099               |
| Trading assets:  |          |         |         |             |                      |
| Debt and equity instruments (b)                          | 4,153    | 4,641   | 3       | —           | 8,797                |
| Derivative assets not designated as hedging:             |          |         |         |             |                      |
| Interest rate  | 5        | 15,661  | 9       | (14,303)    | 1,372                |
| Foreign exchange   | 3,414    | 254     | 1       | (2,005)     | 1,664                |
| Equity   | 165      | 247     | 16      | (160)       | 268                  |
| Total derivative assets not designated as hedging        | 3,584    | 16,162  | 26      | (16,468)    | 3,304                |
| Total trading assets                                     | 7,737    | 20,803  | 29      | (16,468)    | 12,101               |
| Other assets:  |          |         |         |             |                      |
| Derivative assets designated as hedging:                 |          |         |         |             |                      |
| Interest rate  | —        | 1,124   | —       | —           | 1,124                |
| Foreign exchange   | 63       | —       | —       | —           | 63                   |
| Total other assets - derivative assets                   | 63       | 1,124   | —       | —           | 1,187                |
| Other assets (d)   | 140      | 142     | 101     | —           | 383                  |
| Total other assets                                       | 203      | 1,266   | 101     | —           | 1,570                |
| Subtotal assets of operations at fair value              | 21,568   | 85,489  | 181     | (16,468)    | 90,770               |
| Percentage of assets prior to netting                    | 20       | % 80    | %—      | %           |                      |
| Assets of consolidated investment management funds:      |          |         |         |             |                      |
| Trading assets   | 132      | 10,593  | —       | —           | 10,725               |
| Other assets   | 829      | 137     | —       | —           | 966                  |
| Total assets of consolidated investment management funds | 961      | 10,730  | —       | —           | 11,691               |

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|                                       |          |          |       |            |           |
|---------------------------------------|----------|----------|-------|------------|-----------|
| Total assets                          | \$22,529 | \$96,219 | \$181 | \$(16,468) | \$102,461 |
| Percentage of assets prior to netting | 19       | % 81     | %—    | %          |           |

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## Notes to Consolidated Financial Statements (continued)

## Liabilities measured at fair value on a recurring basis at Sept. 30, 2013

| (dollar amounts in millions)   | Level 1 | Level 2  | Level 3 | Netting (a) | Total carrying value |
|--|---------|----------|---------|-------------|----------------------|
| <b>Trading liabilities:</b>  |         |          |         |             |                      |
| Debt and equity instruments  | \$2,525 | \$733    | \$—     | \$—         | \$ 3,258             |
| <b>Derivative liabilities not designated as hedging:</b>                 |         |          |         |             |                      |
| Interest rate  | —       | 16,200   | 53      | (13,271)    | )2,982               |
| Foreign exchange   | 3,740   | 158      | —       | (1,544)     | )2,354               |
| Equity and other contracts   | 77      | 472      | 39      | (160)       | )428                 |
| Total derivative liabilities not designated as hedging                   | 3,817   | 16,830   | 92      | (14,975)    | )5,764               |
| Total trading liabilities  | 6,342   | 17,563   | 92      | (14,975)    | )9,022               |
| Long-term debt (b)   | —       | 326      | —       | —           | 326                  |
| <b>Other liabilities - derivative liabilities designated as hedging:</b> |         |          |         |             |                      |
| Interest rate  | —       | 183      | —       | —           | 183                  |
| Foreign exchange   | 260     | —        | —       | —           | 260                  |
| Total other liabilities - derivative liabilities                         | 260     | 183      | —       | —           | 443                  |
| Subtotal liabilities at fair value                                       | 6,602   | 18,072   | 92      | (14,975)    | )9,791               |
| Percentage of liabilities prior to netting                               | 27      | % 73     | %—      | %           |                      |
| <b>Liabilities of consolidated investment management funds:</b>          |         |          |         |             |                      |
| Trading liabilities  | —       | 10,380   | —       | —           | 10,380               |
| Other liabilities  | —       | 78       | —       | —           | 78                   |
| Total liabilities of consolidated investment management funds            | —       | 10,458   | —       | —           | 10,458               |
| Total liabilities  | \$6,602 | \$28,530 | \$92    | \$(14,975)  | )\$ 20,249           |
| Percentage of liabilities prior to netting                               | 19      | % 81     | %—      | %           |                      |

ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral. Netting is applicable to derivatives not designated as a) hedging instruments included in trading assets or trading liabilities, and derivatives designated as hedging instruments included in other assets or other liabilities. Netting is allocated to the derivative products based on the net fair value of each product.

(b) Includes certain interests in securitizations.

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

(d) Includes private equity investments, seed capital and a brokerage account.

## Notes to Consolidated Financial Statements (continued)

Assets measured at fair value on a recurring basis at Dec. 31, 2012

| (dollar amounts in millions)                             | Level 1  | Level 2   | Level 3 | Netting (a) | Total carrying value |
|--|----------|-----------|---------|-------------|----------------------|
| Available-for-sale securities:                           |          |           |         |             |                      |
| U.S. Treasury  | \$18,003 | \$—       | \$—     | \$—         | \$ 18,003            |
| U.S. Government agencies                                 | —        | 1,074     | —       | —           | 1,074                |
| Sovereign debt   | 41       | 9,383     | —       | —           | 9,424                |
| State and political subdivisions (b)                     | —        | 6,077     | 45      | —           | 6,122                |
| Agency RMBS  | —        | 34,193    | —       | —           | 34,193               |
| Alt-A RMBS   | —        | 279       | —       | —           | 279                  |
| Prime RMBS   | —        | 728       | —       | —           | 728                  |
| Subprime RMBS  | —        | 452       | —       | —           | 452                  |
| Other RMBS   | —        | 2,794     | —       | —           | 2,794                |
| Commercial MBS   | —        | 3,139     | —       | —           | 3,139                |
| Asset-backed CLOs  | —        | 1,282     | —       | —           | 1,282                |
| Other asset-backed securities                            | —        | 2,131     | —       | —           | 2,131                |
| Equity securities  | 27       | —         | —       | —           | 27                   |
| Money market funds (b)                                   | 2,190    | —         | —       | —           | 2,190                |
| Corporate bonds  | —        | 1,585     | —       | —           | 1,585                |
| Other debt securities                                    | —        | 2,368     | —       | —           | 2,368                |
| Foreign covered bonds                                    | 2,995    | 723       | —       | —           | 3,718                |
| Alt-A RMBS (c)   | —        | 1,970     | —       | —           | 1,970                |
| Prime RMBS (c)   | —        | 1,010     | —       | —           | 1,010                |
| Subprime RMBS (c)  | —        | 130       | —       | —           | 130                  |
| Total available-for-sale securities                      | 23,256   | 69,318    | 45      | —           | 92,619               |
| Trading assets:  |          |           |         |             |                      |
| Debt and equity instruments (b)                          | 912      | 4,116     | 48      | —           | 5,076                |
| Derivative assets not designated as hedging:             |          |           |         |             |                      |
| Interest rate  | 36       | 22,734    | 19      | (20,042)    | 2,747                |
| Foreign exchange   | 3,364    | 148       | 1       | (2,171)     | 1,342                |
| Equity   | 121      | 152       | 38      | (98)        | 213                  |
| Total derivative assets not designated as hedging        | 3,521    | 23,034    | 58      | (22,311)    | 4,302                |
| Total trading assets                                     | 4,433    | 27,150    | 106     | (22,311)    | 9,378                |
| Other assets:  |          |           |         |             |                      |
| Derivative assets designated as hedging:                 |          |           |         |             |                      |
| Interest rate  | —        | 928       | —       | —           | 928                  |
| Foreign exchange   | 61       | —         | —       | —           | 61                   |
| Total derivative assets                                  | 61       | 928       | —       | —           | 989                  |
| Other assets (d)   | 96       | 116       | 120     | —           | 332                  |
| Total other assets                                       | 157      | 1,044     | 120     | —           | 1,321                |
| Subtotal assets of operations at fair value              | 27,846   | 97,512    | 271     | (22,311)    | 103,318              |
| Percentage of assets prior to netting                    | 22       | % 78      | % —     | %           |                      |
| Assets of consolidated investment management funds:      |          |           |         |             |                      |
| Trading assets   | 182      | 10,735    | 44      | —           | 10,961               |
| Other assets   | 390      | 130       | —       | —           | 520                  |
| Total assets of consolidated investment management funds | 572      | 10,865    | 44      | —           | 11,481               |
| Total assets   | \$28,418 | \$108,377 | \$315   | \$(22,311)  | \$114,799            |

|                                       |    |      |     |   |
|---------------------------------------|----|------|-----|---|
| Percentage of assets prior to netting | 21 | % 79 | % — | % |
|---------------------------------------|----|------|-----|---|

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## Notes to Consolidated Financial Statements (continued)

## Liabilities measured at fair value on a recurring basis at Dec. 31, 2012

| (dollar amounts in millions)                                      | Level 1 | Level 2  | Level 3 | Netting (a) | Total carrying value |
|---|---------|----------|---------|-------------|----------------------|
| Trading liabilities:  |         |          |         |             |                      |
| Debt and equity instruments                                       | \$1,121 | \$659    | \$—     | \$—         | \$ 1,780             |
| Derivative liabilities not designated as hedging:                 |         |          |         |             |                      |
| Interest rate   | —       | 23,173   | 168     | (19,069)    | 4,272                |
| Foreign exchange  | 3,535   | 97       | —       | (1,823)     | 1,809                |
| Equity  | 91      | 266      | 56      | (98)        | 315                  |
| Total derivative liabilities not designated as hedging            | 3,626   | 23,536   | 224     | (20,990)    | 6,396                |
| Total trading liabilities   | 4,747   | 24,195   | 224     | (20,990)    | 8,176                |
| Long-term debt (b)  | —       | 345      | —       | —           | 345                  |
| Other liabilities - derivative liabilities designated as hedging: |         |          |         |             |                      |
| Interest rate   | —       | 343      | —       | —           | 343                  |
| Foreign exchange  | 361     | —        | —       | —           | 361                  |
| Total other liabilities - derivative liabilities                  | 361     | 343      | —       | —           | 704                  |
| Subtotal liabilities at fair value                                | 5,108   | 24,883   | 224     | (20,990)    | 9,225                |
| Percentage of liabilities prior to netting                        | 17      | % 82     | % 1     | %           |                      |
| Liabilities of consolidated investment management funds:          |         |          |         |             |                      |
| Trading liabilities   | —       | 10,152   | —       | —           | 10,152               |
| Other liabilities   | —       | 29       | —       | —           | 29                   |
| Total liabilities of consolidated investment management funds     | —       | 10,181   | —       | —           | 10,181               |
| Total liabilities   | \$5,108 | \$35,064 | \$224   | \$(20,990)  | \$ 19,406            |
| Percentage of liabilities prior to netting                        | 13      | % 87     | % —     | %           |                      |

ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral. Netting is applicable to derivatives not designated as (a) hedging instruments included in trading assets or trading liabilities, and derivatives designated as hedging instruments included in other assets or other liabilities. Netting is allocated to the derivative products based on the net fair value of each product.

(b) Includes certain interests in securitizations.

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

(d) Includes private equity investments, seed capital and a brokerage account.



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Notes to Consolidated Financial Statements (continued)

| Details of certain items measured at fair value on a recurring basis (dollar amounts in millions) | Sept. 30, 2013           |                    |            |            |               | Dec. 31, 2012            |              |             |             |               |
|---|--------------------------|--------------------|------------|------------|---------------|--------------------------|--------------|-------------|-------------|---------------|
|   | Total carrying value (a) | Ratings<br>AAA/AA- | A+/A-      | BBB+/BBB-  | BB+ and lower | Total carrying value (a) | AAA/AA-      | A+/A-       | BBB+/BBB-   | BB+ and lower |
| <b>Alt-A RMBS, originated in:</b>   |                          |                    |            |            |               |                          |              |             |             |               |
| 2006-2007   | \$103                    | —                  | %—         | %—         | %100          | % \$111                  | — %          | — %         | — %         | 100 %         |
| 2005  | 100                      | —                  | —          | —          | 100           | 107                      | —            | —           | —           | 100           |
| 2004 and earlier  | 55                       | 1                  | 3          | 30         | 66            | 61                       | 4            | 9           | 25          | 62            |
| <b>Total Alt-A RMBS</b>   | <b>\$258</b>             | <b>—</b>           | <b>%1</b>  | <b>%6</b>  | <b>%93</b>    | <b>% \$279</b>           | <b>1 %</b>   | <b>2 %</b>  | <b>6 %</b>  | <b>91 %</b>   |
| <b>Prime RMBS, originated in:</b>   |                          |                    |            |            |               |                          |              |             |             |               |
| 2007  | \$93                     | —                  | %—         | %41        | %59           | % \$106                  | — %          | — %         | 45 %        | 55 %          |
| 2006  | 56                       | —                  | —          | —          | 100           | 70                       | —            | —           | —           | 100           |
| 2005  | 134                      | —                  | 44         | —          | 56            | 215                      | —            | 33          | 7           | 60            |
| 2004 and earlier  | 243                      | 5                  | 6          | 52         | 37            | 337                      | 16           | 42          | 7           | 35            |
| <b>Total prime RMBS</b>   | <b>\$526</b>             | <b>3</b>           | <b>%14</b> | <b>%31</b> | <b>%52</b>    | <b>% \$728</b>           | <b>7 %</b>   | <b>29 %</b> | <b>12 %</b> | <b>52 %</b>   |
| <b>Subprime RMBS, originated in:</b>  |                          |                    |            |            |               |                          |              |             |             |               |
| 2005  | \$110                    | —                  | %22        | %49        | %29           | % \$108                  | 4 %          | 8 %         | 34 %        | 54 %          |
| 2004 and earlier  | 298                      | 2                  | 6          | 3          | 89            | 344                      | 3            | 4           | 6           | 87            |
| <b>Total subprime RMBS</b>  | <b>\$408</b>             | <b>1</b>           | <b>%11</b> | <b>%15</b> | <b>%73</b>    | <b>% \$452</b>           | <b>3 %</b>   | <b>5 %</b>  | <b>13 %</b> | <b>79 %</b>   |
| <b>Commercial MBS - Domestic, originated in:</b>  |                          |                    |            |            |               |                          |              |             |             |               |
| 2009-2012   | \$417                    | 83                 | %17        | %—         | %—            | % \$283                  | 97 %         | 3 %         | — %         | — %           |
| 2008  | 23                       | 60                 | 40         | —          | —             | 24                       | 59           | 41          | —           | —             |
| 2007  | 492                      | 72                 | 19         | 9          | —             | 707                      | 78           | 16          | 6           | —             |
| 2006  | 744                      | 85                 | 15         | —          | —             | 900                      | 85           | 14          | 1           | —             |
| 2005  | 519                      | 99                 | —          | 1          | —             | 640                      | 98           | 1           | 1           | —             |
| 2004 and earlier  | 203                      | 95                 | 5          | —          | —             | 285                      | 100          | —           | —           | —             |
| <b>Total commercial MBS - Domestic</b>  | <b>\$2,398</b>           | <b>86</b>          | <b>%12</b> | <b>%2</b>  | <b>%—</b>     | <b>% \$2,839</b>         | <b>89 %</b>  | <b>9 %</b>  | <b>2 %</b>  | <b>— %</b>    |
| <b>Foreign covered bonds:</b>   |                          |                    |            |            |               |                          |              |             |             |               |
| Canada  | \$896                    | 100                | %—         | %—         | %—            | % \$925                  | 100 %        | — %         | — %         | — %           |
| United Kingdom  | 763                      | 100                | —          | —          | —             | 756                      | 100          | —           | —           | —             |
| Netherlands   | 293                      | 100                | —          | —          | —             | 360                      | 100          | —           | —           | —             |
| Germany   | 194                      | 100                | —          | —          | —             | 866                      | 98           | 2           | —           | —             |
| Other   | 709                      | 100                | —          | —          | —             | 811                      | 100          | —           | —           | —             |
| <b>Total foreign covered bonds</b>  | <b>\$2,855</b>           | <b>100</b>         | <b>%—</b>  | <b>%—</b>  | <b>%—</b>     | <b>% \$3,718</b>         | <b>100 %</b> | <b>— %</b>  | <b>— %</b>  | <b>— %</b>    |
| <b>European floating rate notes - available-for-sale:</b>   |                          |                    |            |            |               |                          |              |             |             |               |

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|   |          |     |     |     |      |           |       |      |      |       |
|---|----------|-----|-----|-----|------|-----------|-------|------|------|-------|
| United Kingdom  | \$1,641  | 81  | %18 | %1  | %—   | % \$1,873 | 79 %  | 19 % | 2 %  | — %   |
| Netherlands   | 442      | 100 | —   | —   | —    | 841       | 100   | —    | —    | —     |
| Ireland   | 167      | 14  | —   | —   | 86   | 161       | 15    | —    | —    | 85    |
| Italy   | 108      | —   | 100 | —   | —    | 125       | —     | 100  | —    | —     |
| Other   | 130      | 46  | 4   | —   | 50   | 145       | 50    | 7    | —    | 43    |
| Total European floating rate notes - available-for-sale | \$2,488  | 74  | %17 | %—  | %9   | % \$3,145 | 77 %  | 15 % | 2 %  | 6 %   |
| Sovereign debt:   |          |     |     |     |      |           |       |      |      |       |
| United Kingdom  | \$4,668  | 100 | %—  | %—  | %—   | % \$4,771 | 100 % | — %  | — %  | — %   |
| Netherlands   | 2,079    | 100 | —   | —   | —    | 2,054     | 100   | —    | —    | —     |
| Germany   | 1,983    | 100 | —   | —   | —    | 1,646     | 100   | —    | —    | —     |
| France  | 1,481    | 100 | —   | —   | —    | 897       | 100   | —    | —    | —     |
| Other   | 357      | 100 | —   | —   | —    | 56        | 100   | —    | —    | —     |
| Total sovereign debt                                    | \$10,568 | 100 | %—  | %—  | %—   | % \$9,424 | 100 % | — %  | — %  | — %   |
| Alt-A RMBS (b), originated in:                          |          |     |     |     |      |           |       |      |      |       |
| 2006-2007   | \$1,038  | —   | %—  | %—  | %100 | % \$1,128 | — %   | — %  | — %  | 100 % |
| 2005  | 557      | —   | 4   | 1   | 95   | 622       | 4     | —    | 1    | 95    |
| 2004 and earlier  | 197      | —   | —   | 13  | 87   | 220       | —     | 2    | 12   | 86    |
| Total Alt-A RMBS (b)                                    | \$1,792  | —   | %1  | %2  | %97  | % \$1,970 | 1 %   | — %  | 2 %  | 97 %  |
| Prime RMBS (b), originated in:                          |          |     |     |     |      |           |       |      |      |       |
| 2006-2007   | \$507    | —   | %—  | %—  | %100 | % \$601   | — %   | — %  | — %  | 100 % |
| 2005  | 317      | —   | 1   | —   | 99   | 378       | —     | 1    | 2    | 97    |
| 2004 and earlier  | 26       | —   | 8   | 22  | 70   | 31        | —     | 8    | 24   | 68    |
| Total prime RMBS (b)                                    | \$850    | —   | %—  | %1  | %99  | % \$1,010 | — %   | 1 %  | 1 %  | 98 %  |
| Subprime RMBS (b), originated in:                       |          |     |     |     |      |           |       |      |      |       |
| 2005-2007   | \$92     | —   | %—  | %10 | %90  | % \$94    | — %   | — %  | — %  | 100 % |
| 2004 and earlier  | 35       | 1   | 5   | 38  | 56   | 36        | 5     | —    | 36   | 59    |
| Total subprime RMBS (b)                                 | \$127    | —   | %1  | %18 | %81  | % \$130   | 2 %   | — %  | 10 % | 88 %  |

(a) At Sept. 30, 2013 and Dec. 31, 2012, foreign covered bonds and sovereign debt were included in Level 1 and Level 2 in the valuation hierarchy. All other assets in the table are Level 2 assets in the valuation hierarchy.

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

## Notes to Consolidated Financial Statements (continued)

## Changes in Level 3 fair value measurements

Our classification of a financial instrument in Level 3 of the valuation hierarchy is based on the significance of the unobservable factors to the overall fair value measurement. However, these instruments generally include other observable components that are actively quoted or validated to third-party sources; accordingly, the gains and losses in the table below include changes in fair value due to observable parameters as well as the unobservable parameters in our valuation methodologies. We also frequently manage the risks of Level 3 financial instruments using securities and derivatives positions that are Level 1 or 2 instruments which are not included in the

table; accordingly, the gains or losses below do not reflect the effect of our risk management activities related to the Level 3 instruments.

The Company has a Level 3 Pricing Committee which evaluates the valuation techniques used in determining the fair value of Level 3 assets and liabilities.

The tables below include a roll forward of the balance sheet amounts for the quarter ended Sept. 30, 2013 and 2012 (including the change in fair value), for financial instruments classified in Level 3 of the valuation hierarchy.

Fair value measurements for assets using significant unobservable inputs for the three months ended Sept. 30, 2013

| (in millions)  | Available-for-sale securities    |                             | Trading assets    |                  |          | Total assets of operations | Assets of consolidated investment management funds |
|--|----------------------------------|-----------------------------|-------------------|------------------|----------|----------------------------|--|
|  | State and political subdivisions | Debt and equity instruments | Derivative assets | (a) Other assets |          |                            |  |
| Fair value at June 30, 2013  | \$ 52                            | \$2                         | \$42              | \$113            | \$209    | 44                         |  |
| Transfers out of Level 3   | —                                | —                           | (14 )             | —                | (14 )    | —                          |  |
| Total gains or (losses) for the period:  |                                  |                             |                   |                  |          |                            |  |
| Included in earnings (or changes in net assets)  | (1 )                             | (b) 1                       | (c) (2 )          | (c) (2 )         | (d) (4 ) | (e) 2                      |  |
| Sales  | —                                | —                           | —                 | (10 )            | (10 )    | (46 )                      |  |
| Fair value at Sept. 30, 2013   | \$ 51                            | \$3                         | \$26              | \$101            | \$181    | \$—                        |  |
| Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period |                                  | \$—                         | \$(2 )            | \$—              | \$(2 )   | \$—                        |  |

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

Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in

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

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

(d) Reported in investment and other income.

(e) Reported in income from consolidated investment management funds.

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Fair value measurements for liabilities using significant unobservable inputs for the three months ended Sept. 30, 2013

| (in millions)   | Trading liabilities<br>Derivative<br>liabilities | (a) Total liabilities |
|---|--|-----------------------|
| Fair value at June 30, 2013   | \$117  | \$117                 |
| Transfers out of Level 3  | (13  | ) (13                 |
| Total (gains) or losses for the period:   |  |                       |
| Included in earnings (or changes in net liabilities)  | (5   | )(b) (5               |
| Settlements   | (7   | ) (7                  |
| Fair value at Sept. 30, 2013  | \$92   | \$92                  |
| Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period | \$(1   | ) \$(1                |

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

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

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Notes to Consolidated Financial Statements (continued)

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

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

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

Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in

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

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

(d) Reported in investment and other income.

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

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

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

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

Fair value measurements for assets using significant unobservable inputs for the nine months ended Sept. 30, 2013

| (in millions)               | Available-for-sale securities    |                             | Trading assets                   |              |       | Total assets of operations | Assets of consolidated investment management funds |
|-----------------------------|----------------------------------|-----------------------------|----------------------------------|--------------|-------|----------------------------|--|
|                             | State and political subdivisions | Debt and equity instruments | Derivative assets <sup>(a)</sup> | Other assets |       |                            |  |
| Fair value at Dec. 31, 2012 | \$ 45                            | \$48                        | \$58                             | \$120        | \$271 | \$44                       |  |
| Transfers out of Level 3    | —                                | —                           | (19 )                            | —            | (19 ) | —                          |  |

|  |       |       |         |          |          |       |       |
|--|-------|-------|---------|----------|----------|-------|-------|
| Total gains or (losses) for the period:  |       |       |         |          |          |       |       |
| Included in earnings (or changes in net assets)  | 6     | (b) 4 | (c) (13 | ) (c) (2 | ) (d) (5 | ) 2   | (e)   |
| Purchases and sales:   |       |       |         |          |          |       |       |
| Purchases  | —     | —     | —       | 3        | 3        | —     |       |
| Sales  | —     | (49   | )       | —        | (20      | ) (69 | ) (46 |
| Fair value at Sept. 30, 2013   | \$ 51 | \$3   | \$26    | \$101    | \$181    | \$—   |       |
| Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period |       |       |         |          |          |       |       |
|  |       | \$—   | \$(13   | )        | \$—      | \$(13 | ) \$— |

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

Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in

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

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

(d) Reported in investment and other income.

(e) Reported in income from consolidated investment management funds.

Notes to Consolidated Financial Statements (continued)

Fair value measurements for liabilities using significant unobservable inputs for the nine months ended Sept. 30, 2013

| (in millions)   | Trading liabilities    |     | Total liabilities |
|---|------------------------|-----|-------------------|
|   | Derivative liabilities | (a) |                   |
| Fair value at Dec. 31, 2012   | \$224                  |     | \$224             |
| Transfers out of Level 3  | (17                    | )   | (17 )             |
| Total (gains) or losses for the period:   |                        |     |                   |
| Included in earnings (or changes in net liabilities)  | (110                   | )   | (110 )            |
| Settlements   | (5                     | )   | (5 )              |
| Fair value at Sept. 30, 2013  | \$92                   |     | \$92              |
| Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period | \$27                   |     | \$27              |

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

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

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

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

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

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

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

(d) Reported in investment and other income.

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

| (in millions)                           | Trading liabilities    |     | Total liabilities |
|---|------------------------|-----|-------------------|
|   | Derivative liabilities | (a) |                   |
| Fair value at Dec. 31, 2011             | \$314                  |     | \$314             |
| Total (gains) or losses for the period: |                        |     |                   |

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|   |       |           |   |
|---|-------|-----------|---|
| Included in earnings (or changes in net liabilities)  | (14   | ) (b) (14 | ) |
| Fair value at Sept. 30, 2012  | \$300 | \$300     |   |
| Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period | \$33  | \$33      |   |

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

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

Assets and liabilities measured at fair value on a nonrecurring basis

Under certain circumstances, we make adjustments to fair value our assets, liabilities and unfunded lending-related commitments although they are not measured at fair value on an ongoing basis. An example would be the recording of an impairment of an asset.

The following tables present the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy as of Sept. 30, 2013 and Dec. 31, 2012, for which a nonrecurring change in fair value has been recorded during the quarters ended Sept. 30, 2013 and Dec. 31, 2012.

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## Notes to Consolidated Financial Statements (continued)

| Assets measured at fair value on a nonrecurring basis at Sept. 30, 2013<br>(in millions) | Level 1 | Level 2 | Level 3 | Total carrying value |
|--|---------|---------|---------|----------------------|
| Loans (a)  | \$—     | \$131   | \$8     | \$139                |
| Other assets (b)   | —       | 35      | —       | 35                   |
| Total assets at fair value on a nonrecurring basis                                       | \$—     | \$166   | \$8     | \$174                |

| Assets measured at fair value on a nonrecurring basis at Dec. 31, 2012<br>(in millions) | Level 1 | Level 2 | Level 3 | Total carrying value |
|---|---------|---------|---------|----------------------|
| Loans (a)   | \$—     | \$183   | \$23    | \$206                |
| Other assets (b)  | —       | 79      | —       | 79                   |
| Total assets at fair value on a nonrecurring basis                                      | \$—     | \$262   | \$23    | \$285                |

During the quarters ended Sept. 30, 2013 and Dec. 31, 2012, the fair value of these loans increased \$2 million and (a) decreased \$2 million, respectively, based on the fair value of the underlying collateral as allowed by ASC 310,

Accounting by Creditors for Impairment of a loan, with an offset to the allowance for credit losses.

(b) Includes other assets received in satisfaction of debt and loans held for sale. Loans held for sale are carried on the balance sheet at the lower of cost or market value.

## Level 3 unobservable inputs

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

## Quantitative information about Level 3 fair value measurements of assets

| (dollars in millions)                    | Fair value at<br>Sept.<br>30, 2013 | Valuation techniques     | Unobservable input   | Range                            |
|--|------------------------------------|--------------------------|--|----------------------------------|
| Measured on a recurring basis:           |                                    |                          |  |                                  |
| Available-for-sale securities:           |                                    |                          |  |                                  |
| State and political subdivisions         | \$51                               | Discounted cash flow     | Expected credit loss   | 6%-24%                           |
| Trading assets:                          |                                    |                          |  |                                  |
| Debt and equity instruments:             |                                    |                          |  |                                  |
| Distressed debt                          | \$3                                | Discounted cash flow     | Expected maturity<br>Credit spreads                          | 1 - 10 years<br>120-1,390<br>bps |
| Derivative assets:                       |                                    |                          |  |                                  |
| Interest rate:                           |                                    |                          |  |                                  |
| Structured foreign exchange<br>swaptions | \$9                                | Option pricing model (a) | Correlation risk<br>Long-term foreign exchange<br>volatility | 0%-25%<br>12%-16%                |
| Foreign exchange contracts:              |                                    |                          |  |                                  |
| Long-term foreign exchange<br>options    | \$1                                | Option pricing model (a) | Long-term foreign exchange<br>volatility                     | 18%                              |
| Equity:                                  |                                    |                          |  |                                  |
| Equity options                           | \$16                               | Option pricing model (a) | Long-term equity volatility                                  | 25%-28%                          |

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Measured on a nonrecurring basis:

|       |     |                       |                       |             |
|-------|-----|-----------------------|-----------------------|-------------|
| Loans | \$8 | Discounted cash flows | Timing of sale        | 0-12 months |
|       |     |                       | Cap rate              | 8%          |
|       |     |                       | Cost to complete/sell | 0%-30%      |

Quantitative information about Level 3 fair value measurements of liabilities

|                       |                                    |                      |                    |       |
|-----------------------|------------------------------------|----------------------|--------------------|-------|
| (dollars in millions) | Fair value at<br>Sept. 30,<br>2013 | Valuation techniques | Unobservable input | Range |
|-----------------------|------------------------------------|----------------------|--------------------|-------|

Measured on a recurring basis:

Trading liabilities:

Derivative liabilities:

Interest rate:

|                                       |      |                          |                                       |         |
|---------------------------------------|------|--------------------------|---------------------------------------|---------|
| Structured foreign exchange swaptions | \$53 | Option pricing model (a) | Correlation risk                      | 0%-25%  |
|                                       |      |                          | Long-term foreign exchange volatility | 12%-16% |

Equity:

|                |      |                          |                             |         |
|----------------|------|--------------------------|-----------------------------|---------|
| Equity options | \$39 | Option pricing model (a) | Long-term equity volatility | 23%-28% |
|----------------|------|--------------------------|-----------------------------|---------|

(a) The option pricing model uses market inputs such as foreign currency exchange rates, interest rates and volatility to calculate the fair value of the option.

bps - basis points.

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Notes to Consolidated Financial Statements (continued)

Estimated fair value of financial instruments

The carrying amounts of our financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods - see Note 1 of the Notes to Consolidated Financial Statements in our 2012 Annual Report. The following disclosure discusses these instruments on a uniform fair value basis. However, active markets do not exist for a significant portion of these instruments. For financial instruments where quoted prices from identical assets and liabilities in active markets do not exist, we determine fair value based on discounted cash flow analysis and comparison to similar instruments. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Other judgments would result in different fair values. The assumptions we used at Sept. 30, 2013 and Dec. 31, 2012 include discount rates ranging principally from 0.21% to 5.17%. The fair value information supplements the basic financial statements and other traditional financial data presented throughout this report.

A summary of the practices used for determining fair value and the respective level in the valuation hierarchy for financial assets and liabilities not recorded at fair value follows.

Interest-bearing deposits with the Federal Reserve and other central banks and interest-bearing deposits with banks

The estimated fair value of interest-bearing deposits with the Federal Reserve and other central banks is equal to the book value as these interest-bearing deposits are generally considered cash equivalents. These instruments are classified as Level 2 within the valuation hierarchy. The estimated fair value of interest-bearing deposits with banks is generally determined using discounted cash flows and duration of the instrument to maturity. The primary inputs used to value these transactions are interest rates based on current LIBOR market rates and time to maturity. Interest-bearing deposits with banks are classified as Level 2 within the valuation hierarchy.

Federal funds sold and securities purchased under resale agreements

The estimated fair value of federal funds sold and securities purchased under resale agreements is based on inputs such as interest rates and tenors. Federal

funds sold and securities purchased under resale agreements are classified as Level 2 within the valuation hierarchy.

Securities held-to-maturity

Where quoted prices are available in an active market for identical assets and liabilities, we classify the securities as Level 1 within the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include U.S. Treasury securities.

If quoted market prices are not available for identical assets and liabilities, we estimate fair value using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments, which would generally be classified as Level 2 within the valuation hierarchy, include certain agency and non-agency mortgage-backed securities, commercial mortgage-backed securities and state and political subdivision securities. For securities where quotes from active markets are not available for identical securities, we determine fair value primarily based on pricing sources with reasonable levels of price transparency that employ financial models or obtain comparison to similar instruments to arrive at "consensus" prices.

Specifically, the pricing sources obtain active market prices for similar types of securities (e.g., vintage, position in the securitization structure) and ascertain variables such as discount rate and speed of prepayment for the types of transaction and apply such variables to similar types of bonds. We view these as observable transactions in the current

marketplace and classify such securities as Level 2 within the valuation hierarchy.

#### Loans

For residential mortgage loans, fair value is estimated using discounted cash flow analysis, adjusting where appropriate for prepayment estimates, using interest rates currently being offered for loans with similar terms and maturities to borrowers. The estimated fair value of margin loans and overdrafts is equal to the book value due to the short-term nature of these assets. The estimated fair value of other types of loans is determined using discounted cash flows. Inputs include current LIBOR market rates adjusted for credit spreads. These loans are generally classified as Level 2 within the valuation hierarchy.

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Notes to Consolidated Financial Statements (continued)

Other financial assets

Other financial assets include cash, the Federal Reserve Bank stock and accrued interest receivable. Cash is classified as Level 1 within the valuation hierarchy. The Federal Reserve Bank stock is not redeemable or transferable. The estimated fair value of the Federal Reserve Bank stock is based on the issue price and is classified as Level 2 within the valuation hierarchy. Accrued interest receivable is generally short-term. As a result, book value is considered to equal fair value. Accrued interest receivable is included as Level 2 within the valuation hierarchy.

Noninterest-bearing and interest-bearing deposits

Interest-bearing deposits are comprised of money market rate and demand deposits, savings deposits and time deposits. Except for time deposits, book value is considered to equal fair value for these deposits due to their short duration to maturity or payable on demand feature. The fair value of interest-bearing time deposits is determined using discounted cash flow analysis. Inputs primarily consist of current LIBOR market rates and time to maturity. For all noninterest-bearing deposits, book value is considered to equal fair value as a result of the short duration of the deposit. Interest-bearing and noninterest-bearing deposits are classified as Level 2 within the valuation hierarchy.

Federal funds purchased and securities sold under repurchase agreements

The estimated fair value of federal funds purchased and securities sold under repurchase agreements is based on inputs such as interest rates and tenors. Federal funds purchased and securities sold under repurchase agreements are classified as Level 2 within the valuation hierarchy.

Payables to customers and broker-dealers

The estimated fair value of payables to customers and broker-dealers is equal to the book value, due to the demand feature of the payables to customers and broker-dealers, and are classified as Level 2 within the valuation hierarchy.

Borrowings

Borrowings primarily consist of overdrafts of subcustodian account balances in our Investment Services businesses, commercial paper and accrued interest payable. The estimated fair value of overdrafts of subcustodian account balances in our Investment Services businesses is considered to equal book value as a result of the short duration of the overdrafts. Overdrafts are typically repaid within two days. The estimated fair value of our commercial paper is based on discount and duration of the commercial paper. Our commercial paper matures within 397 days from date of issue and is not redeemable prior to maturity or subject to voluntary prepayment. Our commercial paper is included in Level 2 of the valuation hierarchy. Accrued interest payable is generally short-term. As a result, book value is considered to equal fair value. Accrued interest payable is included as Level 2 within the valuation hierarchy.

Long-term debt

The estimated fair value of long-term debt is based on current rates for instruments of the same remaining maturity or quoted market prices for the same or similar issues. Long-term debt is classified as Level 2 within the valuation hierarchy.

The following tables present the estimated fair value and the carrying amount of financial instruments not carried at fair value on the consolidated balance sheet at Sept. 30, 2013 and Dec. 31, 2012, by caption on the consolidated

balance sheet and by ASC 820 valuation hierarchy (as described above).

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## Notes to Consolidated Financial Statements (continued)

| Summary of financial instruments<br>(in millions)                          | Sept. 30, 2013 |           |         | Total<br>estimated<br>fair value | Carrying<br>amount |
|--|----------------|-----------|---------|----------------------------------|--------------------|
|  | Level 1        | Level 2   | Level 3 |                                  |                    |
| Assets:  |                |           |         |                                  |                    |
| Interest-bearing deposits with the Federal Reserve and other central banks | \$—            | \$95,519  | \$—     | \$95,519                         | \$95,519           |
| Interest-bearing deposits with banks                                       | —              | 41,426    | —       | 41,426                           | 41,390             |
| Federal funds sold and securities purchased under resale agreements        | —              | 9,191     | —       | 9,191                            | 9,191              |
| Securities held-to-maturity  | 3,307          | 16,993    | —       | 20,300                           | 20,358             |
| Loans  | —              | 47,706    | —       | 47,706                           | 47,700             |
| Other financial assets   | 7,304          | 1,055     | —       | 8,359                            | 8,359              |
| Total  | \$10,611       | \$211,890 | \$—     | \$222,501                        | \$222,517          |
| Liabilities:   |                |           |         |                                  |                    |
| Noninterest-bearing deposits   | \$—            | \$87,303  | \$—     | \$87,303                         | \$87,303           |
| Interest-bearing deposits  | —              | 168,188   | —       | 168,188                          | 168,257            |
| Federal funds purchased and securities sold under repurchase agreements    | —              | 9,737     | —       | 9,737                            | 9,737              |
| Payables to customers and broker-dealers                                   | —              | 15,293    | —       | 15,293                           | 15,293             |
| Borrowings   | —              | 2,830     | —       | 2,830                            | 2,830              |
| Long-term debt   | —              | 19,042    | —       | 19,042                           | 18,563             |
| Total  | \$—            | \$302,393 | \$—     | \$302,393                        | \$301,983          |
| Summary of financial instruments   |                |           |         |                                  |                    |
| (in millions)  | Dec. 31, 2012  |           |         | Total<br>estimated<br>fair value | Carrying<br>amount |
|  | Level 1        | Level 2   | Level 3 |                                  |                    |
| Assets:  |                |           |         |                                  |                    |
| Interest-bearing deposits with the Federal Reserve and other central banks | \$—            | \$90,110  | \$—     | \$90,110                         | \$90,110           |
| Interest-bearing deposits with banks                                       | —              | 43,936    | —       | 43,936                           | 43,910             |
| Federal funds sold and securities purchased under resale agreements        | —              | 6,593     | —       | 6,593                            | 6,593              |
| Securities held-to-maturity  | 1,070          | 7,319     | —       | 8,389                            | 8,205              |
| Loans  | —              | 44,031    | —       | 44,031                           | 44,010             |
| Other financial assets   | 4,727          | 1,115     | —       | 5,842                            | 5,842              |
| Total  | \$5,797        | \$193,104 | \$—     | \$198,901                        | \$198,670          |
| Liabilities:   |                |           |         |                                  |                    |
| Noninterest-bearing deposits   | \$—            | \$93,019  | \$—     | \$93,019                         | \$93,019           |
| Interest-bearing deposits  | —              | 153,030   | —       | 153,030                          | 153,076            |
| Federal funds purchased and securities sold under repurchase agreements    | —              | 7,427     | —       | 7,427                            | 7,427              |
| Payables to customers and broker-dealers                                   | —              | 16,095    | —       | 16,095                           | 16,095             |
| Borrowings   | —              | 1,883     | —       | 1,883                            | 1,883              |
| Long-term debt   | —              | 19,397    | —       | 19,397                           | 18,530             |
| Total  | \$—            | \$290,851 | \$—     | \$290,851                        | \$290,030          |

The table below summarizes the carrying amount of the hedged financial instruments, the notional amount of the hedge and the unrealized gain (loss) (estimated fair value) of the derivatives.

| Hedged financial instruments<br>(in millions) | Carrying<br>amount | Notional<br>amount of<br>hedge | Unrealized |          |
|---|--------------------|--------------------------------|------------|----------|
|   |                    |                                | Gain       | (Loss)   |
| At Sept. 30, 2013:                            |                    |                                |            |          |
| Interest-bearing deposits with banks          | \$ 1,546           | \$ 1,546                       | \$28       | \$(44 )  |
| Securities available-for-sale                 | 5,888              | 6,414                          | 568        | (135 )   |
| Deposits                                      | —                  | —                              | —          | —        |
| Long-term debt                                | 13,955             | 13,562                         | 552        | (49 )    |
| At Dec. 31, 2012:                             |                    |                                |            |          |
| Interest-bearing deposits with banks          | \$ 11,328          | \$ 11,328                      | \$38       | \$(224 ) |
| Securities available-for-sale                 | 5,597              | 5,355                          | 12         | (339 )   |
| Deposits                                      | 10                 | 10                             | 1          | —        |
| Long-term debt                                | 15,100             | 14,314                         | 911        | (4 )     |

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## Notes to Consolidated Financial Statements (continued)

## Note 16 - Fair value option

ASC 825 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments.

The following table presents the assets and liabilities, by type, of consolidated investment management funds recorded at fair value.

| Assets and liabilities of consolidated investment management funds, at fair value |                |               |
|---|----------------|---------------|
| (in millions)   | Sept. 30, 2013 | Dec. 31, 2012 |
| Assets of consolidated investment management funds:                               |                |               |
| Trading assets  | \$ 10,725      | \$ 10,961     |
| Other assets  | 966            | 520           |
| Total assets of consolidated investment management funds                          | \$ 11,691      | \$ 11,481     |
| Liabilities of consolidated investment management funds:                          |                |               |
| Trading liabilities   | \$ 10,380      | \$ 10,152     |
| Other liabilities   | 78             | 29            |
| Total liabilities of consolidated investment management funds                     | \$ 10,458      | \$ 10,181     |

BNY Mellon values assets in consolidated CLOs using observable market prices observed from the secondary loan market. The returns to the note holders are solely dependent on the assets and accordingly equal the value of those assets. Mark-to-market valuation 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 investment management funds.

We have elected the fair value option on \$240 million of long-term debt in connection with ASC 810. At Sept. 30, 2013, the fair value of this long-term debt was \$326 million. The long-term debt is valued using observable market inputs and is included in Level 2 of the ASC 820 hierarchy.

The following table presents the changes in fair value of the long-term debt included in foreign exchange and other trading revenue in the consolidated income statement.

| Foreign exchange and other trading revenue      |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
| (in millions)                                   | Quarter ended  |                | Year-to-date   |                |
|   | Sept. 30, 2013 | Sept. 30, 2012 | Sept. 30, 2013 | Sept. 30, 2012 |
| Changes in the fair value of long-term debt (a) | \$(2           | )(6            | \$ 19          | \$(19          |

(a) The change in fair value of the long-term debt is approximately offset by an economic hedge included in trading.

## Note 17 - Derivative instruments

We use derivatives to manage exposure to market risk including interest rate risk, equity price risk and foreign currency risk, as well as credit risk. Our trading activities are focused on acting as a market-maker for our customers and facilitating customer trades. In addition, we periodically manage positions for our own account. Positions managed for our own account are immaterial to our foreign exchange and other trading revenue and to our overall results of operations.

The notional amounts for derivative financial instruments express the dollar volume of the transactions; however, credit risk is much smaller. We perform credit reviews and enter into netting agreements and collateral arrangements to minimize the credit risk of derivative financial instruments. We enter into offsetting positions to reduce exposure to foreign currency, interest rate and equity price 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 \$1.2 million in the third quarter of 2013. There were no counterparty default losses in the third quarter of 2012.

#### Hedging derivatives

We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations. For hedges of available-for-sale investment securities, 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

Notes to Consolidated Financial Statements (continued)

benchmark interest rates, and that the strategy is to eliminate fair value variability by converting fixed-rate interest payments to LIBOR.

The available-for-sale investment securities hedged consist of sovereign debt, U.S. Treasury bonds and agency commercial mortgage-backed securities that had original maturities of 30 years or less at initial purchase. The swaps on all of these investment securities are not callable. All of these securities are hedged with “pay fixed rate, receive variable rate” swaps of similar maturity, repricing and fixed rate coupon. At Sept. 30, 2013, \$6.2 billion face amount of securities were hedged with interest rate swaps that had notional values of \$6.4 billion.

The fixed rate long-term debt instruments hedged generally have original maturities of five to 30 years. We issue both callable and non-callable debt. The non-callable debt is hedged with simple interest rate swaps similar to those described for deposits. Callable debt is hedged with callable swaps where the call dates of the swaps exactly match the call dates of the debt. At Sept. 30, 2013, \$13.6 billion par value of debt was hedged with interest rate swaps that had notional values of \$13.6 billion.

In addition, we enter into foreign exchange hedges. We use forward foreign exchange contracts with maturities of nine months or less to hedge our British Pound, Euro, Hong Kong Dollar, Indian Rupee and Singapore Dollar foreign exchange exposure with respect to foreign currency forecasted revenue and expense transactions in entities that have the U.S. dollar as their functional currency. As of Sept. 30, 2013, the hedged forecasted foreign currency transactions and designated forward foreign exchange contract hedges were \$225 million (notional), with a pre-tax gain of \$1 million recorded in accumulated other comprehensive income. This gain will be reclassified to income or expense over the next nine months.

We use forward foreign exchange contracts with remaining maturities of nine months or less as hedges against our foreign exchange exposure to Australian Dollar, Euro, Swedish Krona, British Pound, Danish Krone, Norwegian Krone and Japanese Yen with respect to interest-bearing deposits with banks and their associated forecasted interest revenue. These hedges are designated as cash flow hedges. These

hedges are effected such that their maturities and notional values match those of the deposits with banks. As of Sept. 30, 2013, the hedged interest-bearing deposits with banks and their designated forward foreign exchange contract hedges were \$1.7 billion (notional), with a pre-tax loss of less than \$1 million recorded in accumulated other comprehensive income. This loss will be reclassified to net interest revenue over the next nine months.

Forward foreign exchange contracts are also used to hedge the value of our net investments in foreign subsidiaries. These forward foreign exchange contracts have maturities of less than two years. The derivatives employed are designated as hedges of changes in value of our foreign investments due to exchange rates. Changes in the value of the forward foreign exchange contracts offset the changes in value of the foreign investments due to changes in foreign exchange rates. The change in fair market value of these forward foreign exchange contracts is deferred and reported within accumulated translation adjustments in shareholders' equity, net of tax. At Sept. 30, 2013, forward foreign exchange contracts with notional amounts totaling \$5.8 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 Sept. 30, 2013, had a combined U.S. dollar equivalent value of \$531 million.

Ineffectiveness related to derivatives and hedging relationships was recorded in income as follows:

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| Ineffectiveness<br>(in millions)                 | Nine months ended |                |
|--|-------------------|----------------|
|  | Sept. 30, 2013    | Sept. 30, 2012 |
| Fair value hedges of securities                  | \$10.4            | \$(1.7)        |
| Fair value hedges of deposits and long-term debt | 3.8               | (7.3)          |
| Cash flow hedges                                 | (0.1)             | )0.1           |
| Other (a)  | 0.1               | (0.1)          |
| Total  | \$14.2            | \$(9.0)        |

(a) Includes ineffectiveness recorded on foreign exchange hedges.

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## Notes to Consolidated Financial Statements (continued)

The following table summarizes the notional amount and credit exposure of our total derivative portfolio at Sept. 30, 2013 and Dec. 31, 2012.

| Impact of derivative instruments on the balance sheet<br>(in millions) | Notional value |               | Asset derivatives fair value |               | Liability derivatives fair value |               |
|--|----------------|---------------|------------------------------|---------------|----------------------------------|---------------|
|  | Sept. 30, 2013 | Dec. 31, 2012 | Sept. 30, 2013               | Dec. 31, 2012 | Sept. 30, 2013                   | Dec. 31, 2012 |
| Derivatives designated as hedging instruments (a):                     |                |               |                              |               |                                  |               |
| Interest rate contracts  | \$19,976       | \$19,679      | \$1,124                      | \$928         | \$183                            | \$343         |
| Foreign exchange contracts   | 7,763          | 16,805        | 63                           | 61            | 260                              | 361           |
| Total derivatives designated as hedging instruments                    |                |               | \$1,187                      | \$989         | \$443                            | \$704         |
| Derivatives not designated as hedging instruments (b):                 |                |               |                              |               |                                  |               |
| Interest rate contracts  | \$786,857      | \$796,155     | \$15,675                     | \$22,789      | \$16,253                         | \$23,341      |
| Foreign exchange contracts   | 446,009        | 359,204       | 3,669                        | 3,513         | 3,898                            | 3,632         |
| Equity contracts   | 22,243         | 11,375        | 428                          | 311           | 588                              | 413           |
| Credit contracts   | 101            | 166           | —                            | —             | —                                | —             |
| Total derivatives not designated as hedging instruments                |                |               | \$19,772                     | \$26,613      | \$20,739                         | \$27,386      |
| Total derivatives fair value (c)                                       |                |               | \$20,959                     | \$27,602      | \$21,182                         | \$28,090      |
| Effect of master netting agreements (d)                                |                |               | (16,468)                     | (22,311)      | (14,975)                         | (20,990)      |
| Fair value after effect of master netting agreements                   |                |               | \$4,491                      | \$5,291       | \$6,207                          | \$7,100       |

(a) The fair value of asset derivatives and liability derivatives designated as hedging instruments is recorded as other assets and other liabilities, respectively, on the balance sheet.

(b) The fair value of asset derivatives and liability derivatives not designated as hedging instruments is recorded as trading assets and trading liabilities, respectively, on the balance sheet.

(c) Fair values are on a gross basis, before consideration of master netting agreements, as required by ASC 815.

(d) Master netting agreements are reported net of cash collateral received and paid of \$1,631 million and \$138 million, respectively, at Sept. 30, 2013, and \$1,452 million and \$131 million, respectively, at Dec. 31, 2012.

At Sept. 30, 2013, \$470 billion (notional) of interest rate contracts will mature within one year, \$171 billion between one and five years, and \$166 billion after five years. At Sept. 30, 2013, \$438 billion (notional) of foreign exchange contracts will mature within one year, \$7 billion between one and five years, and \$9 billion after five years.

Impact of derivative instruments on the income statement  
(in millions)

| Derivatives in fair value hedging relationships | Location of gain or (loss) recognized in income on derivatives | Gain or (loss) recognized in income on derivatives |       |      | Location of gain or (loss) recognized in income on hedged item | Gain or (loss) recognized in hedged item |         |        |
|---|--|--|-------|------|--|--|---------|--------|
|   |  | 3Q13   | 2Q13  | 3Q12 |  | 3Q13                                     | 2Q13    | 3Q12   |
| Interest rate contracts                         | Net interest revenue   | \$143  | \$169 | \$36 | Net interest revenue   | \$(137)                                  | \$(167) | \$(44) |

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| Derivatives in cash flow hedging relationships | Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) |        |         | Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) | Gain or (loss) reclassified from accumulated OCI into income (effective portion) |       |         | Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing) | Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) |      |      |
|--|---|--------|---------|--|--|-------|---------|---|---|------|------|
|  | 3Q13  | 2Q13   | 3Q12    |  | 3Q13   | 2Q13  | 3Q12    |   | 3Q13  | 2Q13 | 3Q12 |
| FX contracts                                   | \$4   | \$(15) | \$—     | Net interest revenue   | \$(5)  | \$(6) | \$—     | Net interest revenue  | \$—   | \$—  | \$—  |
| FX contracts                                   | (5)   | (1)    | 3       | Other revenue  | (1)  | —     | 1       | Other revenue   | (0.2)   | —    | —    |
| FX contracts                                   | (67)  | 34     | (707)   | Trading revenue  | (67)   | 34    | (707)   | Trading revenue   | —   | —    | —    |
| FX contracts                                   | 11  | (5)    | —       | Salary expense   | (1)  | (1)   | —       | Salary expense  | —   | —    | —    |
| Total  | \$(57)  | \$13   | \$(704) |  | \$(74)   | \$27  | \$(706) |   | \$(0.2)   | \$—  | \$—  |

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Notes to Consolidated Financial Statements (continued)

| Derivatives in net investment hedging relationships | Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) |      |         | Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) | Gain or (loss) reclassified from accumulated OCI into income (effective portion) |      |      | Location of gain or (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing) | Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) |       |      |
|---|---|------|---------|--|--|------|------|--|---|-------|------|
|   | 3Q13  | 2Q13 | 3Q12    |  | 3Q13   | 2Q13 | 3Q12 |  | 3Q13  | 2Q13  | 3Q12 |
| FX contracts  | \$(192)   | \$38 | \$(133) | Net interest revenue   | \$2  | \$—  | \$—  | Other revenue  | \$—   | \$0.2 | \$—  |

Impact of derivative instruments on the income statement  
(in millions)

| Derivatives in fair value hedging relationships | Location of gain or (loss) recognized in income on derivatives | Gain or (loss) recognized in income on derivatives<br>Nine months ended |                | Location of gain or (loss) recognized in income on hedged item | Gain or (loss) recognized in hedged item<br>Nine months ended |                |
|---|--|---|----------------|--|---|----------------|
|   |  | Sept. 30, 2013  | Sept. 30, 2012 |  | Sept. 30, 2013  | Sept. 30, 2012 |
| Interest rate contracts                         | Net interest revenue   | \$388   | \$(86 )        | Net interest revenue   | \$(374 )  | \$77           |

| Derivatives in cash flow hedging relationships | Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) |                | Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) | Gain or (loss) reclassified from accumulated OCI into income (effective portion) |                | Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing) | Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) |                |
|--|---|----------------|--|--|----------------|---|---|----------------|
|  | Sept. 30, 2013  | Sept. 30, 2012 |  | Sept. 30, 2013   | Sept. 30, 2012 |   | Sept. 30, 2013  | Sept. 30, 2012 |
| FX contracts                                   | \$(23 )   | \$7            | Net interest revenue   | \$(24 )  | \$4            | Net interest revenue  | \$—   | \$—            |
| FX contracts                                   | (4 )  | 5              | Other revenue  | (1 )   | 2              | Other revenue   | (0.1 )  | 0.1            |
| FX contracts                                   | 150   | (703 )         | Trading revenue  | 150  | (703 )         | Trading revenue   | —   | —              |
| FX contracts                                   | 4   | —              | Salary expense   | (2 )   | (1 )           | Salary expense  | —   | —              |
| Total  | \$127   | \$(691 )       |  | \$123  | \$(698 )       |   | \$(0.1 )  | \$0.1          |

| Derivatives in net investment hedging relationships | Gain or (loss) recognized in accumulated OCI on derivatives (effective portion) Nine months ended |                | Location of gain or (loss) reclassified from accumulated OCI into income (effective portion) | Gain or (loss) reclassified from accumulated OCI into income (effective portion) Nine months ended |                | Location of gain or (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing) | Gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) Nine months ended |                |
|---|---|----------------|--|--|----------------|--|---|----------------|
|   | Sept. 30, 2013  | Sept. 30, 2012 |  | Sept. 30, 2013   | Sept. 30, 2012 |  | Sept. 30, 2013  | Sept. 30, 2012 |
| FX contracts  | \$13  | \$(162 )       | Net interest revenue   | \$2  | \$—            | Other revenue  | \$0.1   | \$(0.1 )       |

Trading activities (including trading derivatives)

We manage trading risk through a system of position limits, a VaR methodology based on Monte Carlo simulations, stop loss advisory triggers, and other market sensitivity measures. Risk is monitored and reported to senior management by a separate unit on a daily basis. Based on certain assumptions, the VaR methodology is designed to capture the potential overnight pre-tax dollar loss from adverse changes in fair values of all trading positions. The calculation assumes a one-day holding period for most instruments, utilizes a 99% confidence level, and

incorporates the non-linear characteristics of options. The VaR model is one of several statistical models used to develop economic capital results, which is allocated to lines of business for computing risk-adjusted performance.

As the VaR methodology does not evaluate risk attributable to extraordinary financial, economic or other occurrences, the risk assessment process includes a number of stress scenarios based upon the risk factors in the portfolio and management's assessment of market conditions. Additional stress scenarios based upon historic market events are also



## Notes to Consolidated Financial Statements (continued)

performed. Stress tests, by their design, incorporate the impact of reduced liquidity and the breakdown of observed correlations. The results of these stress tests are reviewed weekly with senior management.

Revenue from foreign exchange and other trading included the following:

## Foreign exchange and other trading revenue

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

Foreign exchange 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, structured foreign currency swaps, options, and fixed income securities. Equity/Other primarily includes revenue from equity securities and equity derivatives.

## Counterparty credit risk and collateral

We assess credit risk of our counterparties through regular examination of their financial statements, confidential communication with the management of those counterparties and regular monitoring of publicly available credit rating information. This and other information is used to develop proprietary credit rating metrics used to assess credit quality.

Collateral requirements are determined after a comprehensive review of the credit quality of each counterparty. Collateral is generally held or pledged in the form of cash or highly liquid government securities. Collateral requirements are monitored and adjusted daily.

Additional disclosures concerning derivative financial instruments are provided in Note 15 of the Notes to Consolidated Financial Statements.

## Disclosure of contingent features in over-the-counter (“OTC”) derivative instruments

Certain OTC derivative contracts and/or collateral agreements of The Bank of New York Mellon, our largest banking subsidiary and the subsidiary through which BNY Mellon enters into the substantial majority of all of its OTC derivative contracts and/or collateral agreements, contain provisions that may require us to take certain actions if The Bank of New York Mellon’s public debt rating fell to a certain level. Early termination provisions, or “close-out” agreements, in those contracts could trigger immediate payment of outstanding contracts that are in net liability positions. Certain collateral agreements would require The Bank of New York Mellon to immediately post additional collateral to cover some or all of The Bank of New York Mellon’s liabilities to a counterparty.

The following table shows the fair value of contracts falling under early termination provisions that were in net liability positions as of Sept. 30, 2013 for three key ratings triggers:

| If The Bank of New York Mellon's rating was changed to<br>(Moody's/S&P) | Potential close-out<br>exposures (fair value) (a) |         |
|---|---|---------|
| A3/A-   | \$654   | million |
| Baa2/BBB  | \$785   | million |
| Bal/BB+   | \$1,523   | million |

(a) The change between rating categories is incremental, not cumulative.

Additionally, if The Bank of New York Mellon's debt rating had fallen below investment grade on Sept. 30, 2013, existing collateral arrangements would have required us to have posted an additional \$456 million of collateral.

#### Offsetting assets and liabilities

The following tables present derivative instruments and financial instruments that are either subject to an enforceable netting agreement or offset by collateral arrangements. There were no derivative instruments or financial instruments subject to a netting agreement for which we are not currently netting.

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## Notes to Consolidated Financial Statements (continued)

## Offsetting of financial assets and derivative assets

| (in millions)   | Sept. 30, 2013          |                             |                           | Dec. 31, 2012           |                             |                           |
|---|-------------------------|-----------------------------|---------------------------|-------------------------|-----------------------------|---------------------------|
|   | Gross assets recognized | Offset in the balance sheet | (a) Net assets recognized | Gross assets recognized | Offset in the balance sheet | (a) Net assets recognized |
| Derivatives subject to netting arrangements:          |                         |                             |                           |                         |                             |                           |
| Interest rate contracts                               | \$15,483                | \$14,303                    | \$1,180                   | \$22,234                | \$20,042                    | \$2,192                   |
| Foreign exchange contracts                            | 2,687                   | 2,005                       | 682                       | 3,255                   | 2,171                       | 1,084                     |
| Equity and other contracts                            | 372                     | 160                         | 212                       | 264                     | 98                          | 166                       |
| Total derivatives subject to netting arrangements     | 18,542                  | 16,468                      | 2,074                     | 25,753                  | 22,311                      | 3,442                     |
| Total derivatives not subject to netting arrangements | 2,417                   | —                           | 2,417                     | 1,849                   | —                           | 1,849                     |
| Total derivatives                                     | 20,959                  | 16,468                      | 4,491                     | 27,602                  | 22,311                      | 5,291                     |
| Reverse repurchase agreements                         | 9,176                   | 120                         | (b) 9,056                 | 6,718                   | 137                         | (b) 6,581                 |
| Total   | \$30,135                | \$16,588                    | \$13,547                  | \$34,320                | \$22,448                    | \$11,872                  |

(a) Includes the effect of netting agreements and net cash collateral paid. The offset related to the over-the-counter derivatives was allocated to the various types of derivatives based on the net positions.

Offsetting of reverse repurchase agreements relates to our involvement in the Fixed Income Clearing Corporation, (b) where we settle government securities transactions on a net basis for payment and delivery through the Fedwire system.

## Offsetting of financial liabilities and derivative liabilities

| (in millions)   | Sept. 30, 2013               |                             |                                | Dec. 31, 2012                |                             |                                |
|---|------------------------------|-----------------------------|--------------------------------|------------------------------|-----------------------------|--------------------------------|
|   | Gross liabilities recognized | Offset in the balance sheet | (a) Net liabilities recognized | Gross liabilities recognized | Offset in the balance sheet | (a) Net liabilities recognized |
| Derivatives subject to netting arrangements:          |                              |                             |                                |                              |                             |                                |
| Interest rate contracts                               | \$16,107                     | \$13,271                    | \$2,836                        | \$23,274                     | \$19,069                    | \$4,205                        |
| Foreign exchange contracts                            | 1,847                        | 1,544                       | 303                            | 3,423                        | 1,823                       | 1,600                          |
| Equity and other contracts                            | 454                          | 160                         | 294                            | 310                          | 98                          | 212                            |
| Total derivatives subject to netting arrangements     | 18,408                       | 14,975                      | 3,433                          | 27,007                       | 20,990                      | 6,017                          |
| Total derivatives not subject to netting arrangements | 2,774                        | —                           | 2,774                          | 1,083                        | —                           | 1,083                          |
| Total derivatives                                     | 21,182                       | 14,975                      | 6,207                          | 28,090                       | 20,990                      | 7,100                          |
| Repurchase agreements                                 | 8,933                        | 120                         | (b) 8,813                      | 7,153                        | 137                         | (b) 7,016                      |
| Total   | \$30,115                     | \$15,095                    | \$15,020                       | \$35,243                     | \$21,127                    | \$14,116                       |

(a) Includes the effect of netting agreements and net cash collateral received. The offset related to the over-the-counter derivatives was allocated to the various types of derivatives based on the net positions.

(b) Offsetting of repurchase agreements relates to our involvement in the Fixed Income Clearing Corporation, where we settle government securities transactions on a net basis for payment and delivery through the Fedwire system.

## Note 18 - Commitments and contingent liabilities

In the normal course of business, various commitments and contingent liabilities are outstanding that 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 and securities lending indemnifications. We assume these risks to reduce

interest rate and foreign currency risks, to provide customers with the ability to meet credit and liquidity needs and to hedge foreign currency and interest rate risks. These items involve, to varying degrees, credit, foreign currency and interest rate risk not recognized in the balance sheet. Our off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. Significant industry concentrations related to credit exposure at Sept. 30, 2013 are disclosed in the financial institutions portfolio exposure table and the commercial portfolio exposure table below.

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## Notes to Consolidated Financial Statements (continued)

| Financial institutions<br>portfolio exposure<br>(in billions) | Sept. 30, 2013 |                         |                   |
|---|----------------|-------------------------|-------------------|
|   | Loans          | Unfunded<br>commitments | Total<br>exposure |
| Banks   | \$8.3          | \$2.0                   | \$10.3            |
| Asset managers  | 1.2            | 4.0                     | 5.2               |
| Insurance   | 0.1            | 4.3                     | 4.4               |
| Securities industry   | 2.5            | 1.5                     | 4.0               |
| Government  | 0.4            | 3.0                     | 3.4               |
| Other   | 0.2            | 1.2                     | 1.4               |
| Total   | \$12.7         | \$16.0                  | \$28.7            |

| Commercial portfolio<br>exposure<br>(in billions) | Sept. 30, 2013 |                         |                   |
|---|----------------|-------------------------|-------------------|
|   | Loans          | Unfunded<br>commitments | Total<br>exposure |
| Energy and utilities                              | \$0.7          | \$6.1                   | \$6.8             |
| Services and other                                | 0.6            | 6.1                     | 6.7               |
| Manufacturing                                     | 0.3            | 5.9                     | 6.2               |
| Media and telecom                                 | —              | 1.8                     | 1.8               |
| Total   | \$1.6          | \$19.9                  | \$21.5            |

Major concentrations in securities lending are primarily to broker-dealers and are generally collateralized with cash. Securities lending transactions are discussed below.

The following table presents a summary of our off-balance sheet credit risks, net of participations.

| Off-balance sheet credit risks<br>(in millions) | Sept. 30,<br>2013 | Dec. 31,<br>2012 |
|---|-------------------|------------------|
| Lending commitments (a)                         | \$33,184          | \$31,265         |
| Standby letters of credit (b)                   | 6,737             | 7,167            |
| Commercial letters of credit                    | 374               | 219              |
| Securities lending indemnifications (c)         | 268,637           | 245,717          |

(a) Net of participations totaling \$326 million at Sept. 30, 2013 and \$350 million at Dec. 31, 2012.

(b) Net of participations totaling \$793 million at Sept. 30, 2013 and \$1.0 billion at Dec. 31, 2012.

(c) Excludes securities lending activity at the CIBC Mellon joint venture of \$65 billion at Sept. 30, 2013 and \$66 billion at Dec. 31, 2012.

Included in lending commitments are facilities that provide liquidity for variable rate tax-exempt securities wrapped by monoline insurers. The credit approval for these facilities is based on an assessment of the underlying tax-exempt issuer and considers factors other than the financial strength of the monoline insurer.

The total potential loss on undrawn lending commitments, standby and commercial letters of credit, and securities lending indemnifications is

equal to the total notional amount if drawn upon, which does not consider the value of any collateral.

Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. A summary of lending commitment maturities is as follows: \$9.6 billion in less than one year, \$23.4 billion in one to five years and \$0.2 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 \$6.7 billion at Sept. 30, 2013 and \$7.2 billion at Dec. 31, 2012, and includes \$505 million and \$781 million that were collateralized with cash and securities at Sept. 30, 2013 and Dec. 31, 2012, respectively. At Sept. 30, 2013, \$3.4 billion of the SBLCs will expire within one year and \$3.3 billion in one to five years.

We must recognize, at the inception of standby letters of credit and foreign and other guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee. As required by ASC 460 - “Guarantees”, the fair value of the liability, which was recorded with a corresponding asset in other assets, was estimated as the present value of contractual customer fees.

The estimated liability for losses related to these commitments and SBLCs, if any, is included in the allowance for lending-related commitments. The allowance for lending-related commitments was \$133 million at Sept. 30, 2013 and \$121 million at Dec. 31, 2012.

Payment/performance risk of SBLCs is monitored using both historical performance and internal ratings criteria. BNY Mellon’s historical experience is that SBLCs typically expire without being funded. SBLCs below investment grade are monitored closely for payment/performance risk. The table below shows SBLCs by investment grade:

| Standby letters of credit | Sept. 30,<br>2013 | Dec. 31,<br>2012 |   |
|---------------------------|-------------------|------------------|---|
| Investment grade          | 89                | % 93             | % |
| Noninvestment grade       | 11                | % 7              | % |

Notes to Consolidated Financial Statements (continued)

A commercial letter of credit is normally a short-term instrument used to finance a commercial contract for the shipment of goods from a seller to a buyer. Although the commercial letter of credit is contingent upon the satisfaction of specified conditions, it represents a credit exposure if the buyer defaults on the underlying transaction. As a result, the total contractual amounts do not necessarily represent future cash requirements. Commercial letters of credit totaled \$374 million at Sept. 30, 2013 compared with \$219 million at Dec. 31, 2012.

A securities lending transaction is a fully collateralized transaction in which the owner of a security agrees to lend the security (typically through an agent, in our case, The Bank of New York Mellon), to a borrower, usually a broker-dealer or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which normally matures in less than 90 days.

We typically lend securities with indemnification against borrower default. We generally require the borrower to provide collateral with a minimum value of 102% of the fair value of the securities borrowed, which is monitored on a daily basis, thus reducing credit risk. Market risk can also arise in securities lending transactions. These risks are controlled through policies limiting the level of risk that can be undertaken. Securities lending transactions are generally entered into only with highly-rated counterparties. Securities lending indemnifications were secured by collateral of \$277 billion at Sept. 30, 2013 and \$253 billion at Dec. 31, 2012.

CIBC Mellon, a joint venture between BNY Mellon and the Canadian Imperial Bank of Commerce (“CIBC”), engages in securities lending activities. CIBC Mellon, BNY Mellon, and CIBC jointly and severally indemnify securities lenders against specific types of borrower default. At Sept. 30, 2013, \$65 billion of borrowings at CIBC Mellon were secured by collateral of \$69 billion. At Dec. 31, 2012, \$66 billion of borrowings at CIBC Mellon were secured by collateral of \$70 billion. If, upon a default, a borrower’s collateral was not sufficient to cover its related obligations, certain losses related to the indemnification could be covered by the indemnitors.

We expect many of these guarantees to expire without the need to advance any cash. The revenue associated with guarantees frequently depends on the

credit rating of the obligor and the structure of the transaction, including collateral, if any.

#### Exposure for certain administrative errors

In connection with certain funds that we manage, we may be liable to the funds for certain administrative errors. The errors relate to questions about the resident status of certain offshore tax exempt funds, potentially exposing the Company to a tax liability related to the funds’ earnings. The Company is in discussions with tax authorities regarding the funds. In addition to amounts accrued, we believe it is reasonably possible that we could have a potential additional exposure of approximately \$100 million.

#### Indemnification Arrangements

We have provided standard representations for underwriting agreements, acquisition and divestiture agreements, sales of loans and commitments, and other similar types of arrangements and customary indemnification for claims and legal proceedings related to providing financial services that are not otherwise included above. Insurance has been purchased to mitigate certain of these risks. Generally, there are no stated or notional amounts included in these indemnifications and the contingencies triggering the obligation for indemnification are not expected to occur. Furthermore, often counterparties to these transactions provide us with comparable indemnifications. We are unable to develop an estimate of the maximum payout under these indemnifications for several reasons. In addition to the lack of a stated or notional amount in a majority of such indemnifications, we are unable to predict the nature of events that

would trigger indemnification or the level of indemnification for a certain event. We believe, however, that the possibility that we will have to make any material payments for these indemnifications is remote. At Sept. 30, 2013 and Dec. 31, 2012, we had no material liabilities under these arrangements.

#### Clearing and Settlement Exchanges

We are a minority equity investor in, and/or member of, several industry clearing or settlement exchanges through which foreign exchange, securities, derivatives or other transactions settle. Certain of these industry clearing and settlement exchanges require their members to guarantee their obligations

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Notes to Consolidated Financial Statements (continued)

and liabilities or to provide financial support in the event other members do not honor their obligations. We believe the likelihood that a clearing or settlement exchange (of which we are a member) would become insolvent is remote. Additionally, certain settlement exchanges have implemented loss allocation policies that enable the exchange to allocate settlement losses to the members of the exchange. It is not possible to quantify such mark-to-market loss until the loss occurs. In addition, any ancillary costs that occur as a result of any mark-to-market loss cannot be quantified. At Sept. 30, 2013 and Dec. 31, 2012, we have not recorded any material liabilities under these arrangements.

Legal proceedings

In the ordinary course of business, BNY Mellon and its subsidiaries are routinely named as defendants in or made parties to pending and potential legal actions and regulatory matters. Claims for significant monetary damages are often asserted in many of these legal actions, while claims for disgorgement, penalties and/or other remedial sanctions may be sought in regulatory matters. It is inherently difficult to predict the eventual outcomes of such matters given their complexity and the particular facts and circumstances at issue in each of these matters. However, on the basis of our current knowledge and understanding, we do not believe that judgments or settlements, if any, arising from these matters (either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage) will have a material adverse effect on the consolidated financial position or liquidity of BNY Mellon, although they could have a material effect on net income in a given period.

In view of the inherent unpredictability of outcomes in litigation and regulatory matters, particularly where (i) the damages sought are substantial or indeterminate, (ii) the proceedings are in the early stages, or (iii) the matters involve novel legal theories or a large number of parties, as a matter of course there is considerable uncertainty surrounding the timing or ultimate resolution of litigation and regulatory matters, including a possible eventual loss, fine, penalty or business impact, if any, associated with each such matter. In accordance with applicable accounting guidance, BNY Mellon establishes accruals for litigation and regulatory matters when those matters proceed to a stage where they present loss contingencies that are both probable and

reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. BNY Mellon will continue to monitor such matters for developments that could affect the amount of the accrual, and will adjust the accrual amount as appropriate. If the loss contingency in question is not both probable and reasonably estimable, BNY Mellon does not establish an accrual and the matter will continue to be monitored for any developments that would make the loss contingency both probable and reasonably estimable. BNY Mellon believes that its accruals for legal proceedings are appropriate and, in the aggregate, are not material to the consolidated financial position of BNY Mellon, although future accruals could have a material effect on net income in a given period.

For certain of those matters described herein for which a loss contingency may, in the future, be reasonably possible (whether in excess of a related accrued liability or where there is no accrued liability), BNY Mellon is currently unable to estimate a range of reasonably possible loss. For those matters where BNY Mellon is able to estimate a reasonably possible loss, the aggregate range of such reasonably possible loss is up to \$650 million in excess of the accrued liability (if any) related to those matters.

The following describes certain judicial, regulatory and arbitration proceedings involving BNY Mellon:

Sentinel Matters

As previously disclosed, on Jan. 18, 2008, The Bank of New York Mellon filed a proof of claim in the Chapter 11 bankruptcy proceeding of Sentinel Management Group, Inc. ("Sentinel") pending in federal court in the Northern District of Illinois, seeking to recover approximately \$312 million loaned to Sentinel and secured by securities and

cash in an account maintained by Sentinel at The Bank of New York Mellon. On March 3, 2008, the bankruptcy trustee filed an adversary complaint against The Bank of New York Mellon seeking to disallow The Bank of New York Mellon's claim and seeking damages for allegedly aiding and abetting Sentinel insiders in misappropriating customer assets and improperly using those assets as collateral for the loan. In a decision dated Nov. 3, 2010, the court found for The Bank of New York Mellon and against the bankruptcy trustee, holding that The Bank of New York Mellon's loan to Sentinel is valid, fully secured and not subject to equitable subordination. The bankruptcy trustee appealed this decision, and on Aug. 9, 2012, the

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United States Court of Appeals for the Seventh Circuit issued a decision affirming the trial court's judgment. On Sept. 7, 2012, the bankruptcy trustee filed a petition for rehearing on the fraudulent transfer portion of the opinion and, on Nov. 30, 2012, the Court of Appeals withdrew its opinion and vacated its judgment. On Aug. 26, 2013, the Court of Appeals reversed its own prior decision and the district court's decision with respect to the bankruptcy trustee's fraudulent transfer and equitable subordination claims and remanded the case to the district court for further proceedings. See Note 5 of the Notes to Consolidated Financial Statements for additional information.

As previously disclosed, in November 2009, the Division of Enforcement of the U.S. Commodities Futures Trading Commission ("CFTC") indicated that it is considering a recommendation to the CFTC that it file a civil enforcement action against The Bank of New York Mellon for possible violations of the Commodity Exchange Act and CFTC regulations in connection with its relationship to Sentinel. The Bank of New York Mellon responded in writing to the CFTC on Jan. 29, 2010 and provided an explanation as to why an enforcement action is unwarranted.

#### Securities Lending Matters

As previously disclosed, BNY Mellon or its affiliates have been named as defendants in a number of lawsuits initiated by participants in BNY Mellon's securities lending program, which is a part of BNY Mellon's Investment Services business. The lawsuits were filed on various dates from 2009 to 2013, and are currently pending in courts in New York, North Carolina and Illinois and in commercial court in London. The complaints assert contractual, statutory, and common law claims, including claims for negligence and breach of fiduciary duty. The plaintiffs allege losses in connection with the investment of securities lending collateral, including losses related to investments in Sigma Finance Inc. ("Sigma"), Lehman Brothers Holdings, Inc. and certain asset-backed securities, and seek damages as to those losses.

#### Foreign Exchange Matters

As previously disclosed, beginning in December 2009, government authorities have been conducting inquiries seeking information relating primarily to standing instruction foreign exchange transactions in connection with custody services BNY Mellon provides to public pension plans and certain other

custody clients. BNY Mellon is cooperating with these inquiries.

In addition, in early 2011, as previously disclosed, the Virginia Attorney General's Office and the Florida Attorney General's Office each intervened in a qui tam lawsuit pending in its jurisdiction, and, on Aug. 11, 2011, filed superseding complaints. On Nov. 9, 2012, the Virginia court, which had previously dismissed all of the claims against BNY Mellon, dismissed the lawsuit with prejudice by agreement of the parties. On Oct. 4, 2011, the New York Attorney General's Office, the New York City Comptroller and various city pension and benefit funds filed a lawsuit asserting claims under the Martin Act and state and city false claims acts. On Aug. 5, 2013, the court dismissed the false claims act claims, and certain plaintiffs have since filed a notice of appeal. Also, on Oct. 4, 2011, the United States Department of Justice ("DOJ") filed a civil lawsuit seeking civil penalties under 12 U.S.C. Section 1833a and injunctive relief under 18 U.S.C. Section 1345 based on alleged ongoing violations of 18 U.S.C. Sections 1341 and 1343 (mail and wire fraud). On Jan. 17, 2012, the court approved a partial settlement resolving the DOJ's claim for injunctive relief. In October 2011, several political subdivisions of the state of California intervened in a qui tam lawsuit that was removed to federal district court in California. On March 30, 2012, the court dismissed certain of plaintiffs' claims, including all claims under the California False Claims Act. Certain plaintiffs have since filed an amended complaint. Several plaintiffs also had their claims dismissed for improper venue and one refiled on Sept. 5, 2012 in a different California federal district court. On Oct. 26, 2011, the Massachusetts Securities Division filed an Administrative Complaint against BNY Mellon.

BNY Mellon has also been named as a defendant in several putative class action federal lawsuits filed on various dates in 2011 and 2012. The complaints, which assert claims including breach of contract and ERISA and securities laws violations, all allege that the prices BNY Mellon charged for standing instruction foreign exchange transactions executed in connection with custody services provided by BNY Mellon were improper. In addition, BNY Mellon has been named as a nominal defendant in several derivative lawsuits filed in 2011 and 2012 in state and federal court in New York. On July 2, 2013, the court in the consolidated federal derivative action dismissed all of plaintiffs' claims, and plaintiffs have

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appealed that decision. On Oct. 1, 2013, the court in the consolidated state derivative action dismissed all of plaintiff's claims. BNY Mellon was also named in a qui tam lawsuit filed on May 22, 2012 in Massachusetts state court, but the court dismissed all of plaintiff's claims on Sept. 10, 2013. The plaintiff has filed a notice of appeal. To the extent these lawsuits are pending in federal court, they are being coordinated for pre-trial purposes in federal court in New York.

#### Lyondell Litigation

As previously disclosed, in an action filed in New York State Supreme Court for New York County, on Sept. 14, 2010, plaintiffs as holders of debt issued by Basell AF in 2005 allege that The Bank of New York Mellon, as indenture trustee, breached its contractual and fiduciary obligations by executing an intercreditor agreement in 2007 in connection with Basell's acquisition of Lyondell Chemical Company. Plaintiffs sought damages for their alleged losses resulting from the execution of the 2007 intercreditor agreement that allowed the company to increase the amount of its senior debt. After its motion to dismiss was denied in part, BNY Mellon appealed the denial. On May 21, 2013, the appellate court found in our favor and held that BNY Mellon had been released from liability. Plaintiffs have sought leave to reargue or, in the alternative, to pursue an appeal to the New York Court of Appeals. The appellate court denied plaintiffs' motion on Sept. 26, 2013. Plaintiffs have sought leave to pursue an appeal directly from the Court of Appeals.

#### Tax Litigation

As previously disclosed, on Aug. 17, 2009, BNY Mellon received a Statutory Notice of Deficiency disallowing tax benefits for the 2001 and 2002 tax years in connection with a 2001 transaction that involved the payment of UK corporate income taxes that were credited against BNY Mellon's U.S. corporate income tax liability. On Nov. 10, 2009, BNY Mellon filed a petition with the U.S. Tax Court contesting the disallowance of the benefits. Trial was held from April 16 to May 17, 2012. On Feb. 11, 2013, the Tax Court upheld the IRS's Notice of Deficiency and disallowed BNY Mellon's tax credits and associated transaction costs. On Sept. 23, 2013, the Tax Court issued a supplemental opinion, partially reducing the tax implications to BNY Mellon of its earlier decision. BNY Mellon will appeal the Tax Court's ruling once a formal decision is entered, which awaits the Tax Court's computation of the

amounts owed. See Note 11 of the Notes to Consolidated Financial Statements for additional information.

#### Mortgage-Securitization Trusts Proceeding

As previously disclosed, The Bank of New York Mellon as trustee is the petitioner in a legal proceeding filed in New York State Supreme Court, New York County on June 29, 2011, seeking approval of a proposed settlement involving Bank of America Corporation and bondholders in certain Countrywide residential mortgage-securitization trusts. The New York and Delaware Attorneys General have intervened in this proceeding. The trial in this matter began on June 3, 2013.

#### Matters Related to R. Allen Stanford

In late December 2005, Pershing LLC became a clearing firm for Stanford Group Co. ("SGC"), a registered broker dealer that was part of a group of entities ultimately controlled by R. Allen Stanford. Stanford International Bank ("SIB"), also controlled by Stanford, issued certificates of deposit ("CDs"). Some investors allegedly wired funds from their SGC accounts to purchase CDs. In 2009, the SEC charged Stanford with operating a Ponzi scheme in connection with the sale of CDs, and SGC was placed into receivership. Pershing has been sued by alleged purchasers of CDs in three lawsuits currently pending in federal court in Texas. In addition, alleged purchasers have filed FINRA arbitration claims against Pershing. Since August 2013, operative statements of claim have been filed with FINRA in Texas, Florida and Georgia. The purchasers allege that Pershing, as SGC's clearing firm, assisted Stanford in a fraudulent scheme, and assert contractual, statutory and common law claims.

#### Note 19 - Lines of businesses

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

Business accounting principles

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

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Notes to Consolidated Financial Statements (continued)

Business results are subject to reclassification whenever improvements are made in the measurement principles or when organizational changes are made. Internal crediting rates for deposits are regularly updated to reflect the value of deposit balances and distribution of overall interest revenue. In the third quarter of 2013, lower internal crediting rates were applied to deposits in the

Investment Management and Investment Services businesses. There was no impact to consolidated results.

The accounting policies of the businesses are the same as those described in Note 1 of the Notes to Consolidated Financial Statements in our 2012 Annual Report.

The primary types of revenue for our two principal businesses and the Other segment are presented below:

| Business              | Primary types of revenue  |
|-----------------------|---|
|                       | Investment management and performance fees from:  |
|                       | Mutual funds  |
| Investment Management | Institutional clients   |
|                       | Private clients   |
|                       | High-net-worth individuals and families, endowments and foundations and related entities                                      |
|                       | Distribution and servicing fees   |
|                       | Asset servicing fees, including institutional trust and custody fees, broker-dealer services and securities lending           |
| Investment Services   | Issuer services fees, including Corporate Trust and Depositary Receipts   |
|                       | Clearing services fees, including broker-dealer services, registered investment advisor services and prime brokerage services |
|                       | Treasury services fees, including global payment services and working capital solutions                                       |
|                       | Foreign exchange  |
|                       | Credit-related activities   |
|                       | Leasing operations  |
| Other segment         | Corporate treasury activities   |
|                       | Global markets and institutional banking services   |
|                       | Business exits  |

The results of our businesses are presented and analyzed on an internal management reporting basis:

- Revenue amounts reflect fee and other revenue generated by each business. Fee and other revenue transferred between businesses under revenue transfer agreements is included within other revenue in each business.

- Revenues and expenses associated with specific client bases are included in those businesses. For example, foreign exchange activity associated with clients using custody products is allocated to Investment Services.

- Net interest revenue is allocated to businesses based on the yields on the assets and liabilities generated by each business. We employ a funds transfer pricing system that matches funds with the specific assets and liabilities of each business based on their interest sensitivity and maturity characteristics.

- Support and other indirect expenses are allocated to businesses based on internally-developed methodologies.

- Recurring FDIC expense is allocated to the businesses based on average deposits generated within each business.

- Litigation expense is generally recorded in the business in which the charge occurs.

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Management of the investment securities portfolio is a shared service contained in the Other segment. As a result, gains and losses associated with the valuation of the securities portfolio are included in the Other segment. Client deposits serve as the primary funding source for our investment securities portfolio. We typically allocate all interest revenue to the businesses generating the deposits. Accordingly, accretion related to the restructured investment securities portfolio has been included in the results of the businesses. M&I expenses and restructuring charges are corporate level items and are therefore recorded in the Other segment. Balance sheet assets and liabilities and their related income or expense are specifically

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## Notes to Consolidated Financial Statements (continued)

assigned to each business. Businesses with a net liability position have been allocated assets.

Goodwill and intangible assets are reflected within individual businesses.

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

| For the quarter ended Sept. 30, 2013<br>(dollar amounts in millions) | Investment<br>Management | Investment<br>Services | Other     | Consolidated |     |
|--|--------------------------|------------------------|-----------|--------------|-----|
| Fee and other revenue  | \$ 920                   | (a) \$ 1,947           | \$ 120    | \$ 2,987     | (a) |
| Net interest revenue   | 67                       | 619                    | 86        | 772          |     |
| Total revenue  | 987                      | 2,566                  | 206       | 3,759        |     |
| Provision for credit losses  | —                        | —                      | 2         | 2            |     |
| Noninterest expense  | 732                      | 1,812                  | 235       | 2,779        |     |
| Income (loss) before taxes   | \$ 255                   | (a) \$ 754             | \$(31)    | \$ 978       | (a) |
| Pre-tax operating margin (b)   | 26                       | % 29                   | % N/M     | 26           | %   |
| Average assets   | \$ 38,690                | \$ 246,254             | \$ 56,806 | \$ 341,750   |     |

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the quarter ended June 30, 2013<br>(dollar amounts in millions) | Investment<br>Management | Investment<br>Services | Other     | Consolidated |     |
|---|--------------------------|------------------------|-----------|--------------|-----|
| Fee and other revenue   | \$ 922                   | (a) \$ 1,971           | \$ 320    | \$ 3,213     | (a) |
| Net interest revenue  | 63                       | 633                    | 61        | 757          |     |
| Total revenue   | 985                      | 2,604                  | 381       | 3,970        |     |
| Provision for credit losses   | —                        | —                      | (19)      | (19)         |     |
| Noninterest expense   | 713                      | 1,880                  | 229       | 2,822        |     |
| Income before taxes   | \$ 272                   | (a) \$ 724             | \$ 171    | \$ 1,167     | (a) |
| Pre-tax operating margin (b)  | 28                       | % 28                   | % N/M     | 29           | %   |
| Average assets  | \$ 37,953                | \$ 244,803             | \$ 54,699 | \$ 337,455   |     |

Total fee and other revenue includes income from consolidated investment management funds of \$65 million, net (a) of noncontrolling interests of \$39 million, for a net impact of \$26 million. Income before taxes includes noncontrolling interests of \$39 million.

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the quarter ended Sept. 30, 2012<br>(dollar amounts in millions) | Investment<br>Management | Investment<br>Services | Other  | Consolidated |     |
|--|--------------------------|------------------------|--------|--------------|-----|
| Fee and other revenue  | \$ 869                   | (a) \$ 1,876           | \$ 156 | \$ 2,901     | (a) |
| Net interest revenue   | 51                       | 608                    | 90     | 749          |     |
| Total revenue  | 920                      | 2,484                  | 246    | 3,650        |     |
| Provision for credit losses  | —                        | (4)                    | (1)    | (5)          |     |
| Noninterest expense  | 692                      | 1,779                  | 234    | 2,705        |     |

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|                              |           |     |           |          |            |      |
|------------------------------|-----------|-----|-----------|----------|------------|------|
| Income before taxes          | \$ 228    | (a) | \$ 709    | \$ 13    | \$ 950     | (a)  |
| Pre-tax operating margin (b) | 25        | %   | 29        | %        | N/M        | 26 % |
| Average assets               | \$ 35,285 |     | \$224,987 | \$58,642 | \$ 318,914 |      |

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

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Notes to Consolidated Financial Statements (continued)

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

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

| For the nine months ended Sept. 30, 2012<br>(dollar amounts in millions) | Investment<br>Management |     | Investment<br>Services |   | Other     |   | Consolidated |     |
|--|--------------------------|-----|------------------------|---|-----------|---|--------------|-----|
| Fee and other revenue  | \$ 2,576                 | (a) | \$ 5,606               |   | \$ 443    |   | \$ 8,625     | (a) |
| Net interest revenue   | 158                      |     | 1,857                  |   | 233       |   | 2,248        |     |
| Total revenue  | 2,734                    |     | 7,463                  |   | 676       |   | 10,873       |     |
| Provision for credit losses  | —                        |     | (2                     | ) | (17       | ) | (19          | )   |
| Noninterest expense  | 2,050                    |     | 5,755                  |   | 703       |   | 8,508        |     |
| Income (loss) before taxes   | \$ 684                   | (a) | \$ 1,710               |   | \$ (10    | ) | \$ 2,384     | (a) |
| Pre-tax operating margin (b)   | 25                       | %   | 23                     | % | N/M       |   | 22           | %   |
| Average assets   | \$ 35,665                |     | \$ 216,579             |   | \$ 56,215 |   | \$ 308,459   |     |

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

(b) Income before taxes divided by total revenue.

N/M - Not meaningful.

Note 20 - Supplemental information to the Consolidated Statement of Cash Flows

Noncash investing and financing transactions that, appropriately, are not reflected in the Consolidated Statement of Cash Flows are listed below.

| Noncash investing and financing transactions<br>(in millions)             | Nine months ended Sept. 30, |      |
|---|-----------------------------|------|
|   | 2013                        | 2012 |
| Transfers from loans to other assets for other real estate owned (“OREO”) | \$ 3                        | \$ 6 |
| Change in assets of consolidated VIEs                                     | 210                         | 22   |
| Change in liabilities of consolidated VIEs                                | 277                         | 39   |
| Change in noncontrolling interests of consolidated VIEs                   | 12                          | 111  |

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Item 4. Controls and Procedures

Disclosure controls and procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, with participation by the members of the Disclosure Committee, has responsibility for ensuring that there is an adequate and effective process for establishing, maintaining, and evaluating disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in our SEC reports is timely recorded, processed, summarized and reported and that information required to be disclosed by BNY Mellon is accumulated and communicated to BNY Mellon's management to allow timely decisions regarding the required disclosure. In addition, our ethics hotline can also be used by employees and others for the anonymous communication of concerns about financial controls or reporting matters. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

As previously disclosed in our 2012 Annual Report, we are reviewing our process for the reporting of information included in our public filings and we have initiated plans to streamline and enhance the data collection processes and systems relating to AUC/A and other information in our public filings. To date, the review has not resulted in any material changes to our publicly disclosed historical information.

Changes in internal control over financial reporting

In the ordinary course of business, we may routinely modify, upgrade or enhance our internal controls and procedures for financial reporting. There have not been any changes in our internal controls over financial reporting as defined in Rule 13a-15(f) of the Exchange Act during the third quarter of 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Forward-looking Statements

Some statements in this document are forward-looking. These include all statements about the usefulness of Non-GAAP measures; the future results of BNY Mellon and our long-term goals and strategies. In addition, these forward-looking statements relate to expectations regarding: Basel III and our estimated Basel III Tier 1 common equity ratio; proposed rulemaking concerning implementation of minimum liquidity standards; the U.S. Tax Court ruling; the potential impact of supplementary leverage ratio proposals; the impact of the continued run-off of high-margin securitizations on our total annual revenue; our foreign exchange revenue; increasing expenses relating to investments in our compliance, risk and control functions in light of increasing regulatory requirements; elevated levels of legal and litigation costs; operational excellence initiatives, targeted savings by the end of 2013, actual operating expenses and program costs; our effective tax rate; the seasonality impact on our business; estimations of market value impact on fee revenue and earnings per share; estimated new business wins in assets under custody and/or administration; our tri-party repo business; overdraft exposure with respect to Irish-domiciled investment funds; the impact of significant changes in ratings classifications for our investment securities portfolio; assumptions with respect to residential mortgage-backed securities; the expected impact of actions on our investment securities portfolio in the event of a rise in interest rates; effects of changes in projected loss severities and default rates on impairment charges; goals with respect to our commercial portfolio; a loan related to Sentinel; our credit strategies; our anticipated quarterly provision for credit losses in the fourth quarter of 2013; the effect of credit ratings on allowances; our liquidity cushion, liquidity ratios, liquid asset buffer, levels and sources of wholesale funds and potential uses of liquidity; a reduction in our Investment Services businesses; our liquidity policy; access to capital markets and our shelf registration statements; the impact of a change in rating agencies' assumptions on ratings of the Parent, The Bank of New York Mellon and BNY Mellon, N.A.; capital, including anticipated redemptions or other actions with regard to outstanding securities; statements regarding the capitalization status of BNY Mellon and its bank subsidiaries; our share repurchase program; the effects of customer behavior and market volatility or stress on our balance sheet size and client deposit levels; the effects of changes in risk-weighted assets/quarterly average assets or changes in common equity levels on capital ratios;

our foreign exchange and other trading counterparty risk rating profile; estimations and assumptions on net interest revenue and net interest rate sensitivities; our earnings simulation model; impact of certain events on the growth or contraction of deposits, our assumptions about depositor behavior, our balance sheet and net interest revenue; the timing and effects of pending and proposed accounting standards, legislation and regulation including new risk-based and leverage regulatory capital rules, supplementary leverage ratio proposals, proposed rulemaking concerning implementation of minimum liquidity standards and European Central Bank comprehensive assessments; BNY Mellon's anticipated actions with respect to legal or regulatory proceedings; and future litigation costs, the expected outcome and the impact of judgments and settlements, if any, arising from pending or potential legal or regulatory proceedings and BNY Mellon's expectations with respect to litigation accruals.

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," "target," "expect," "intend," "continue," "seek," "believe," "goal," "could," "should," "may," "will," "strategy," "synergies," "opportunities," "trends" and words of similar meaning, signify forward-looking statements.

Forward-looking statements, including discussions and projections of future results of operations and discussions of future plans contained in the Management's Discussion and Analysis of Financial Condition and Results of Operations, are based on management's current expectations and assumptions that involve risk and uncertainties and that are subject to change based on various important factors (some of which are beyond BNY Mellon's control), including adverse changes in market conditions, and the timing of such changes, and the actions that management could take in response to these changes. Actual results may differ materially from those expressed or implied as a result of a number of factors, including those discussed in the "Risk Factors" section included in our 2012 Annual Report, such as:

government regulation and supervision, and associated limitations on our ability to pay dividends or make other capital distributions; recent legislative and regulatory actions; adverse publicity, regulatory actions or litigation with respect to us, other well-known companies and the financial services industry generally; continued litigation and regulatory

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Forward-looking Statements (continued)

investigations and proceedings involving our foreign exchange standing instruction program; failure to satisfy regulatory standards; operational risk; failure or circumvention of our controls and procedures; disruption or breaches in security of our information systems that results in a loss of confidential client information or impacts our ability to provide services to our clients; failure to update our technology; change or uncertainty in monetary, tax and other governmental policies; intense competition in all aspects of our business; the risks relating to new lines of business or new products and services, and the failure to grow our existing businesses; failure to attract and retain employees; political, economic, legal, operational and other risks inherent in operating globally; acts of terrorism, natural disasters, pandemics and global conflicts; failure to successfully integrate strategic acquisitions; the ongoing Eurozone crisis, the failure or instability of any of our significant counterparties in Europe, or a breakup of the European Monetary Union, continuing uncertainty in financial markets and weakness in the economy; low or volatile interest rates; continued market volatility; further writedowns of financial instruments that we own and other losses related to volatile and illiquid market conditions; dependence on our fee-based business for a substantial majority of our revenue; declines in capital markets on our fee-based businesses; the impact of a stable exchange-rate environment and declines in cross-border activity on our foreign exchange revenue; material reductions in our credit ratings or the credit ratings of certain of our subsidiaries; the failure or instability of any of our significant counterparties, and our assumption of credit and counterparty risk; credit, regulatory and reputation risks from our tri-party repo agent services; the impact of not effectively managing our liquidity; inadequate reserves for credit losses, including loan reserves; tax law changes or challenges to our tax positions; changes in accounting standards; risks associated with being a holding company, including our dependence on dividends from our subsidiary banks; the impact of provisions of Delaware law and the Federal Reserve on our ability to pay dividends and anti-takeover provisions in our certificate of incorporation and bylaws. Investors should consider all risks included in our 2012 Annual Report and any subsequent reports filed with the SEC by BNY Mellon pursuant to the Exchange Act.

All forward-looking statements speak only as of the date on which such statements are made, and BNY Mellon undertakes no obligation to update any statement to reflect events or circumstances after the date on which such forward-looking statement is made or to reflect the occurrence of unanticipated events. The contents of BNY Mellon's website or any other websites referenced herein are not part of this report.



## Part II - Other Information

## Item 1. Legal Proceedings

The information required by this Item is set forth in the "Legal proceedings" section in Note 18 of the Notes to Consolidated Financial Statements, which portion is incorporated herein by reference in response to this item.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table discloses repurchases of our common stock made in the third quarter of 2013. All of the (c) Company's preferred stock outstanding has preference over the Company's common stock with respect to the payment of dividends.

## Issuer purchases of equity securities

## Share repurchases - third quarter of 2013

| (dollars in millions, except per share information; common shares in thousands) | Total shares repurchased | Average price per share | Total shares repurchased as part of a publicly announced plan | Maximum approximate dollar value of shares that may yet be purchased under the Board authorized plans or programs at Sept. 30, 2013 |     |
|---|--------------------------|-------------------------|---|---|-----|
| July 2013   | 2,375                    | \$ 31.73                | 2,350   | 943   |     |
| August 2013   | 1,513                    | 30.54                   | 1,500   | 897   |     |
| September 2013  | 6                        | 30.01                   | —   | 897   |     |
| Third quarter of 2013   | 3,894                    | (a) \$ 31.27            | 3,850   | 897   | (b) |

Includes 44 thousand shares repurchased at a purchase price of \$1 million from employees, primarily in connection (a) with the employees' payment of taxes upon the vesting of restricted stock. The average price per share of open market purchases was \$31.28.

On March 14, 2013, in connection with the Federal Reserve's non-objection to our 2013 capital plan, the Board of Directors authorized a new stock purchase program providing for the repurchase of an aggregate of \$1.35 billion of (b) common stock beginning in the second quarter of 2013 and continuing through the first quarter of 2014. The share repurchase program may be executed through open market purchases or privately negotiated transactions at such prices, times and upon such other terms as may be determined from time to time.

## Item 6. Exhibits

Pursuant to the rules and regulations of the SEC, 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 BNY Mellon's 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 appears on page 127 hereof, under “Index to Exhibits”, which is incorporated herein by reference.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BANK OF NEW YORK MELLON CORPORATION  
(Registrant)

Date: November 8, 2013

By: /s/ John A. Park  
John A. Park  
Corporate Controller  
(Duly Authorized Officer and  
Principal Accounting Officer of  
the Registrant)

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Index to Exhibits

| Exhibit No. | Description   | Method of Filing  |
|-------------|---|---|
| 2.1         | Amended and Restated Agreement and Plan of Merger, dated as of Dec. 3, 2006, as amended and restated as of Feb. 23, 2007, and as further amended and restated as of March 30, 2007, between The Bank of New York Company, Inc., Mellon Financial Corporation and The Bank of New York Mellon Corporation (the "Company"). | Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File Nos. 000-52710 and 001-06152) as filed with the Commission on July 2, 2007, and incorporated herein by reference. |
| 2.2         | Stock Purchase Agreement, dated as of Feb. 1, 2010, by and between The PNC Financial Services Group, Inc. and The Bank of New York Mellon Corporation.  | Previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on Feb. 3, 2010, and incorporated herein by reference.                |
| 3.1         | Restated Certificate of Incorporation of The Bank of New York Mellon Corporation.   | Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File Nos. 000-52710 and 001-06152) as filed with the Commission on July 2, 2007, and incorporated herein by reference. |
| 3.2         | Certificate of Designations of The Bank of New York Mellon Corporation with respect to Series A Noncumulative Preferred Stock dated June 15, 2007.  | Previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 5, 2007, and incorporated herein by reference.                |
| 3.3         | Certificate of Designations of The Bank of New York Mellon Corporation with respect to Series C Noncumulative Perpetual Preferred Stock dated Sept. 13, 2012.   | Previously filed as Exhibit 3.2 to the Company's Registration Statement on Form 8A12B (File No. 001-35651) as filed with the Commission on Sept. 14, 2012, and incorporated herein by reference.    |
| 3.4         | Certificate of Designations of The Bank of New York Mellon Corporation with respect to the Series D Noncumulative Perpetual Preferred Stock, dated May 16, 2013.  | Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-35651) as filed with the Commission on May 16, 2013, and incorporated herein by reference.                |
| 3.5         | Amended and Restated By-Laws of The Bank of New York Mellon Corporation, as amended and restated on Oct. 8, 2013.   | Previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-35651) as filed with the Commission on Oct. 8, 2013, and incorporated herein by reference.                |
| 4.1         | None of the instruments defining the rights of holders of long-term debt of the Parent or any of its subsidiaries   | N/A   |

represented long-term debt in excess of 10% of the total assets of the Company as of Sept. 30, 2013. The Company hereby agrees to furnish to the Commission, upon request, a copy of any such instrument.

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## Index to Exhibits (continued)

| Exhibit No. | Description   | Method of Filing    |
|-------------|---|---------------------|
| 12.1        | Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend.  | Filed herewith.     |
| 31.1        | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  | Filed herewith.     |
| 31.2        | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  | Filed herewith.     |
| 32.1        | Certification of the Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. |
| 32.2        | Certification of the Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. |
| 101.INS     | XBRL Instance Document.   | Filed herewith.     |
| 101.SCH     | XBRL Taxonomy Extension Schema Document.  | Filed herewith.     |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document.  | Filed herewith.     |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document.   | Filed herewith.     |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document.  | Filed herewith.     |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document.   | Filed herewith.     |

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