Bank of New York Mellon CORP
Form 10-Q
November 08, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[ü] Quarterly Report Pursuant To Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 2010

or

[ ] Transition Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Commission File No. 000-52710

THE BANK OF NEW YORK MELLON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-2614959**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

One Wall Street

New York, New York 10286

(Address of principal executive offices)(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ü No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ü No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ü]	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 ü

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 Sept. 30, 2010
Common Stock, $0.01 par value	1,240,454,409

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THE BANK OF NEW YORK MELLON CORPORATION

THIRD QUARTER 2010 FORM 10-Q

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended **Sept. 30, 2010**	Quarter ended June 30, 2010	Quarter ended Sept. 30, 2009	Nine months ended **Sept. 30, 2010**	Nine months ended Sept. 30, 2009
Net income basis:					
Reported results applicable to common shareholders of The Bank of New York Mellon Corporation:					
Net income (loss)	**$ 622**	$ 658	$ (2,458)	**$ 1,839**	$ (1,960)
Basic EPS	**0.51**	0.54	(2.05)	**1.51**	(1.67)
Diluted EPS	**0.51**	0.54	(2.05) *(a)*	**1.51**	(1.67) *(a)*
Return on common equity *(annualized)*	**7.7%**	8.7%	N/M	**8.0%**	N/M
Return on average assets *(annualized)*	**1.03%**	1.15%	N/M	**1.06%**	N/M
Continuing operations:					
Results from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation:					
Income (loss) from continuing operations	**$ 625**	$ 668	$ (2,439)	**$ 1,894**	$ (1,809)
Basic EPS from continuing operations	**0.51**	0.55	(2.04)	**1.56**	(1.54)
Diluted EPS from continuing operations	**0.51**	0.55	(2.04) *(a)*	**1.55**	(1.54) *(a)*
Fee and other revenue (loss)	**$ 2,668**	$ 2,555	$ (2,223)	**$ 7,752**	$ 2,162
Income of consolidated asset management funds	**37**	65	-	**167**	-
Net interest revenue	**718**	722	716	**2,205**	2,191
Total revenue	**$ 3,423**	$ 3,342	$ (1,507)	**$ 10,124**	$ 4,353
Return on common equity *(annualized) (b)*	**7.8%**	8.8%	N/M	**8.3%**	N/M
Non-GAAP adjusted *(b)*	**9.2%**	9.5%	9.9%	**9.7%**	9.0%
Return on tangible common equity *(annualized)*					
Non-GAAP *(b)*	**26.3%**	25.7%	N/M	**25.9%**	N/M
Non-GAAP adjusted *(b)*	**27.8%**	25.4%	31.5%	**27.7%**	32.6%
Fee and other revenue as a percent of total revenue excluding securities gains (losses)	**78%**	76%	78%	**77%**	78%
Annualized fee revenue per employee (based on average headcount) *(in thousands)*	**$ 234**	$ 240	$ 247	**$ 238**	$ 241
Percent of non-U.S. fee and net interest revenue including noncontrolling interests related to consolidated asset management funds	**36%**	35%	31%	**35%**	30%
Pre-tax operating margin *(b)*	**24%**	30%	N/M	**27%**	N/M
Non-GAAP adjusted *(b)*	**30%**	32%	31%	**32%**	32%
Net interest margin (FTE)	**1.67%**	1.74%	1.85%	**1.77%**	1.84%
Assets under management (AUM) at period end *(in billions)*	**$ 1,141**	$ 1,047	$ 966	**$ 1,141**	$ 966
Assets under custody and administration (AUC) at period end *(in trillions)*	**$ 24.4**	$ 21.8	$ 22.1	**$ 24.4**	$ 22.1
Equity securities	**29%**	28%	29%	**29%**	29%
Fixed income securities	**71%**	72%	71%	**71%**	71%
Cross-border assets at period end *(in trillions)*	**$ 8.8**	$ 8.3	$ 8.6	**$ 8.8**	$ 8.6
Market value of securities on loan at period end *(in billions) (c)*	**$ 279**	$ 248	$ 299	**$ 279**	$ 299

Average common shares and equivalents outstanding *(in thousands)*:					
Basic	**1,210,534**	1,204,557	1,197,414	**1,205,911**	1,171,675
Diluted	**1,212,684**	1,208,830	1,197,414 *(a)*	**1,209,688**	1,171,675 *(a)*

The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended			Nine months ended	
	Sept. 30, 2010	June 30, 2010	Sept. 30, 2009	**Sept. 30, 2010**	Sept. 30, 2009
Capital ratios *(d):*					
Tier 1 capital ratio	**12.2%**	13.5%	11.4%	**12.2%**	11.4%
Total (Tier 1 plus Tier 2) capital ratio	**15.8%**	17.2%	15.3%	**15.8%**	15.3%
Common shareholders equity to total assets ratio *(b)*	**12.7%**	12.9%	13.3%	**12.7%**	13.3%
Tangible common shareholders equity to tangible assets of operations ratio Non-GAAP *(b)*	**5.3%**	6.3%	5.2%	**5.3%**	5.2%
Tier 1 common equity to risk-weighted assets ratio *(b)*	**10.7%**	11.9%	9.9%	**10.7%**	9.9%
Return on average assets *(annualized)*	**1.03%**	1.17%	N/M	**1.10%**	N/M
Selected average balances:					
Interest-earning assets	**$ 172,759**	$ 167,119	$ 155,159	**$ 167,804**	$ 159,916
Assets of operations	**$ 226,378**	$ 216,801	$ 205,786	**$ 218,672**	$ 211,427
Total assets	**$ 240,325**	$ 228,841	$ 205,786	**$ 231,582**	$ 211,427
Interest-bearing deposits	**$ 104,033**	$ 99,963	$ 93,632	**$ 101,687**	$ 98,140
Noninterest-bearing deposits	**$ 33,198**	$ 34,628	$ 34,920	**$ 33,718**	$ 36,915
Total The Bank of New York Mellon Corporation shareholders equity	**$ 31,868**	$ 30,462	$ 28,144	**$ 30,691**	$ 28,352
Other information at period end:					
Full-time employees	**47,700**	42,700	42,000	**47,700**	42,000
Cash dividends per common share	**$ 0.09**	$ 0.09	$ 0.09	**$ 0.27**	$ 0.42
Dividend yield *(annualized)*	**1.4%**	1.5%	1.2%	**1.4%**	1.9%
Closing common stock price per common share	**$ 26.13**	$ 24.69	$ 28.99	**$ 26.13**	$ 28.99
Market capitalization	**$ 32,413**	$ 29,975	$ 34,911	**$ 32,413**	$ 34,911
Book value per common share GAAP *(b)*	**$ 25.92**	$ 25.04	$ 23.50	**$ 25.92**	$ 23.50
Tangible book value per common share Non-GAAP *(b)*	**$ 8.59**	$ 9.33	$ 7.54	**$ 8.59**	$ 7.54
Common shares outstanding *(in thousands)*	**1,240,454**	1,214,042	1,204,244	**1,240,454**	1,204,244

(a) Diluted earnings per share for the three and nine months ended Sept. 30, 2009 was calculated using average basic shares. Adding back the diluted shares would have resulted in anti-dilution.

(b) See Supplemental Information beginning on page 52 for a calculation of these ratios.

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

(d) Includes discontinued operations.

N/M Not meaningful.

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Part I Financial Information

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

General

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

Certain business terms used in this document are defined in the glossary included in our 2009 Annual Report on Form 10-K.

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

How we reported results

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

Throughout this Form 10-Q, certain measures, which are noted, exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons, which relate to our ability to enhance revenues and limit expenses in circumstances where such matters are within our control. We also present certain amounts on a fully taxable equivalent (FTE) basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. The adjustment to a FTE basis has no impact on net income. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See Supplemental information Explanation of Non-GAAP financial measures beginning on page 52 for a reconciliation of financial measures presented in accordance with GAAP to adjusted Non-GAAP financial measures.

In the first quarter of 2010, we adopted ASU 2009-16, Accounting for Transfers of Financial Assets and ASU 2009-17, Improvements to Financial Reporting by Enterprises

Involved with Variable Interest Entities. For a discussion of ASU 2009-16 and ASU 2009-17, see Notes 2 and 13 in the Notes to Consolidated Financial Statements.

Overview

BNY Mellon is a global leader in providing a comprehensive array of services that enable institutions and individuals to manage and service their financial assets, operating in 36 countries and serving more than 100 markets worldwide. We strive to be the global provider of choice for asset and wealth management and institutional services and be recognized for our broad and deep capabilities, superior client service and consistent outperformance versus peers. Our global client base consists of financial institutions, corporations, government agencies, high-net-worth individuals, families, endowments and foundations and related entities. At Sept. 30, 2010, we had $24.4 trillion in assets under custody and administration and $1.14 trillion in assets under management, serviced $12.0 trillion in outstanding debt and, on average, we process $1.6 trillion of global payments per day. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK).

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

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

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Third quarter 2010 events

Acquisition of Global Investment Servicing, Inc.

On July 1, 2010, BNY Mellon acquired Global Investment Servicing, Inc. (GIS) for cash of $2.3 billion. GIS provides a comprehensive suite of products which includes subaccounting, fund accounting/administration, custody, managed account services and alternative investment services. GIS is based in Wilmington, Delaware and has approximately 4,500 employees in locations across the U.S. and Europe.

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

Approximately $4.5 billion of deposits related to GIS are expected to transition to BNY Mellon by the end of 2011. Until the transition is completed, we will receive net economic value payments for these deposits.

Acquisition of BHF Asset Servicing GmbH

On Aug. 2, 2010, BNY Mellon completed the acquisition of BHF Asset Servicing GmbH (BAS) for cash of EUR253 million (US$330 million). This transaction included the purchase of Frankfurter Service Kapitalanlage Gesellschaft mbH (FSKAG), a wholly-owned fund administration affiliate.

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

Asset Management joint venture in Shanghai

In July 2010, the China Securities Regulatory Commission authorized BNY Mellon and Western Securities to establish a joint venture fund management company in China. The new company, BNY Mellon Western Fund Management Company

Limited (BNY Mellon Western Fund Management), is owned by BNY Mellon (49%) and Western Securities (51%).

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

Acquisition of I(3) Advisors

On Sept. 1, 2010, BNY Mellon acquired I(3) Advisors of Toronto, an independent wealth advisory company with more than C$3.8 billion in assets under advisement at acquisition. This was BNY Mellon s first wealth management acquisition in Canada, and is another step in the international expansion of our wealth management business. The combined business offers clients broader global asset management opportunities, increased access to alternative investment opportunities, enhanced technology and reporting capabilities and expanded banking and wealth planning services.

Settlement of forward sale agreement related to equity offering

On Sept. 15, 2010, BNY Mellon settled the forward sale agreement related to the June 2010 equity offering, in which BNY Mellon entered into a forward sale agreement with a forward purchaser, who borrowed and sold to the public through the underwriters shares of the Company s common stock. At settlement, BNY Mellon received net proceeds of approximately $677 million. The settlement also increased our common shares outstanding by 25.9 million shares. The proceeds were primarily used to fund the acquisition of GIS.

Highlights of third quarter 2010 results

We reported income from continuing operations applicable to the common shareholders of BNY Mellon of $625 million, or $0.51 per diluted common share, in the third quarter of 2010 compared with $668 million, or $0.55 per diluted common share, in the second quarter of 2010 and a loss of $2,439 million, or $2.04 per diluted common share, in the third quarter of 2009.

Net income applicable to common shareholders, including discontinued operations, totaled $622 million, or $0.51 per diluted common share, in the third quarter of 2010, compared with net income of $658 million, or $0.54 per diluted common share, in

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the second quarter of 2010 and a net loss of $2,458 million, or $2.05 per diluted common share, in the third quarter of 2009.

Highlights for the third quarter of 2010 include:

Assets under custody and administration (AUC) totaled a record $24.4 trillion at Sept. 30, 2010 compared with $22.1 trillion at Sept. 30, 2009 and $21.8 trillion at June 30, 2010. Both increases primarily reflect the acquisitions of GIS and BAS (collectively, the Acquisitions), as well as higher market values and net new business. (See the Institutional Services Group on page 25).
Assets under management (AUM), excluding securities lending assets, totaled a record $1.14 trillion at Sept. 30, 2010 compared with $966 billion at Sept. 30, 2009 and $1.05 trillion at June 30, 2010. This represents a net increase of 18% compared with the prior year and 9% sequentially. The year-over-year increase was primarily due to the acquisition of Insight Investment Management (Insight), higher market values and net new business. The sequential increase primarily reflects higher market values and net new business. (See the Asset and Wealth Management Group on page 21).
Securities servicing revenue totaled $1.5 billion in the third quarter of 2010 compared with $1.2 billion in the third quarter of 2009. The increase reflects the impact of the Acquisitions, higher asset servicing revenue as a result of higher market values and net new business and higher issuer services revenue from increased depositary receipts, while clearing services revenue was negatively impacted by lower transaction volumes and lower money market related distribution fees. (See the Institutional Services Group on page 25).
Asset and wealth management fees, including performance fees, totaled $696 million in the third quarter of 2010 compared with $664 million in the third quarter of 2009. The increase reflects the impact of the Insight acquisition, improved market values, and net new business. (See the Asset
Management and Wealth Management businesses beginning on page 22).
Foreign exchange and other trading revenue totaled $146 million in the third quarter of 2010 compared with $246 million in the third quarter of 2009. In the third quarter of 2010, foreign exchange revenue totaled $160 million, a decrease of $31 million from the third quarter of 2009, driven by lower volatility. Other trading revenue was a negative $14 million in the third quarter of 2010, compared with revenue of $55 million in the third quarter of 2009. The decrease was largely due to a decline in long-term interest rates. (See Fee and other revenue beginning on page 7).
Investment income and other revenue totaled $97 million in the third quarter of 2010 compared with $205 million in the third quarter of 2009. The decrease reflects lower lease residual gains and a gain on the sale of VISA shares in the third quarter of 2009. (See Fee and other revenue beginning on page 7).
Net interest revenue totaled $718 million in the third quarter of 2010 compared with $716 million in the third quarter of 2009. The slight increase reflects a higher yield on the restructured investment securities portfolio and higher interest-earning assets which were primarily offset by lower spreads. The net interest margin (FTE) for the third quarter of 2010 was 1.67% compared with 1.85% in the third quarter of 2009. The decrease in the net interest margin reflects higher average interest-earning assets in a lower rate environment. (See Net interest revenue beginning on page 11).
The provision for credit losses was a credit of $22 million in the third quarter of 2010 compared with a charge of $147 million in the third quarter of 2009. The decrease in the provision reflects a 52% decline in criticized assets compared with the third quarter of 2009. (See Asset quality and allowance for credit losses beginning on page 39).
Noninterest expense totaled $2.6 billion in the third quarter of 2010 compared with $2.3 billion in the third quarter of 2009. The increase was primarily driven by the impact of acquisitions, higher compensation expense, business development, software, litigation expenses and restructuring charges. (See Noninterest expense beginning on page 14).
Unrealized net of tax gains on our total investment securities portfolio were $311

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million at Sept. 30, 2010 compared with $114 million at June 30, 2010. The improvement in the valuation of the investment securities portfolio was due to the decline in interest rates and the tightening of credit spreads. (See Consolidated balance sheet review beginning on page 34).

The Tier 1 capital ratio was 12.2% at Sept. 30, 2010 compared with 13.5% at June 30, 2010. The decrease primarily reflects the Acquisitions, partially offset by the issuance of $677 million (25.9 million shares) of common equity via the forward sale agreement and earnings retention. (See Capital beginning on page 47).

Fee and other revenue

Fee and other revenue				**3Q10 vs.**		**Year-to-date**		**YTD10 vs.**
(dollars in millions, unless otherwise noted)	**3Q10**	2Q10	3Q09	**3Q09**	**2Q10**	**2010**	2009	**YTD09**
Securities servicing fees:								
Asset servicing	**$ 832**	$ 622	$ 600	**39%**	**34%**	**$ 2,062**	$ 1,693	**22%**
Securities lending revenue	**38**	46	43	**(12)**	**(17)**	**113**	230	**(51)**
Issuer services	**364**	354	359	**1**	**3**	**1,051**	1,095	**(4)**
Clearing services	**252**	245	236	**7**	**3**	**727**	739	**(2)**
Total securities servicing fees	**1,486**	1,267	1,238	**20**	**17**	**3,953**	3,757	**5**
Asset and wealth management fees	**696**	686	664	**5**	**1**	**2,068**	1,931	**7**
Foreign exchange and other trading revenue	**146**	220	246	**(41)**	**(34)**	**628**	790	**(21)**
Treasury services	**132**	125	128	**3**	**6**	**388**	385	**1**
Distribution and servicing	**56**	51	73	**(23)**	**10**	**155**	269	**(42)**
Financing-related fees	**49**	48	56	**(13)**	**2**	**147**	158	**(7)**
Investment income	**64**	72	121	**(47)**	**(11)**	**244**	148	**65**
Other	**33**	73	84	**(61)**	**(55)**	**143**	108	**32**
Total fee revenue GAAP	**$ 2,662**	$ 2,542	$ 2,610	**2%**	**5%**	**$ 7,726**	$ 7,546	**2%**
Income of consolidated asset management funds, net of noncontrolling interests	**49** *(a)*	32 *(a)*	-	**N/M**	**53**	**122** *(a)*	-	**N/M**
Total fee revenue Non-GAAP	**$ 2,711** *(b)*	$ 2,574	$ 2,610	**4%**	**5%**	**$ 7,848**	$ 7,546	**4%**
Net securities gains (losses)	**6**	13	(4,833)	**N/M**	**N/M**	**26**	(5,384)	**N/M**
Total fee and other revenue Non-GAAP *(b)*	**$ 2,717**	$ 2,587	$ (2,223)	**N/M**	**5%**	**$ 7,874**	$ 2,162	**N/M**
Fee revenue as a percent of total revenue excluding securities gains (losses)	**78%**	76%	78%			**77%**	78%	
Market value of AUM at period end *(in billions)*	**$ 1,141**	$ 1,047	$ 966	**18%**	**9%**	**$ 1,141**	$ 966	**18%**
Market value of AUC and administration at period end *(in trillions)*	**$ 24.4**	$ 21.8	$ 22.1	**10%**	**12%**	**$ 24.4**	$ 22.1	**10%**

(a) Includes $36 million, $29 million and $90 million previously included in asset and wealth management fees and $13 million, $3 million and $32 million previously included in investment income in the third and second quarters, and first nine months of 2010, respectively. See Operations of consolidated asset management funds on page 10.

(b) Total fee and other revenue on a GAAP basis was $2,668 million for the third quarter of 2010, $2,555 million for the second quarter of 2010, $(2,223) million for the third quarter of 2009, $7,752 million for the first nine months of 2010 and $2,162 million for the first nine months of 2009. Total fee revenue from the Acquisitions was $234 million in the third quarter of 2010.

N/M Not meaningful.

Fee revenue

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

Fee revenue increased 2% versus the year-ago quarter and 5% (unannualized) sequentially. Both increases primarily reflect the impact of the Acquisitions and higher asset and wealth management fees, partially offset by lower foreign exchange and other trading revenue, lower investment income and lower foreign currency translation revenue.

Securities servicing fees

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

- Asset servicing fees The year-over-year and sequential growth reflects the Acquisitions, higher market values, net new business and asset inflows from existing clients.
- Securities lending revenue The year-over-year decrease reflects narrower spreads and lower loan balances while the sequential decrease reflects seasonally lower spreads, partially offset by higher loan balances.
- Issuer services fees The increase year-over-year reflects higher Depositary Receipts revenue resulting from higher corporate action fees partially offset by lower Corporate Trust fee revenue resulting from decreased activity in the global debt markets and lower Shareowner Services revenue reflecting lower corporate action fees and lower employee stock option plan fees. The sequential increase resulted from higher Depositary Receipts revenue, partially offset by lower Shareowner Services fee revenue due to seasonality.
- Clearing services fees Year-over-year results reflect the impact of the GIS acquisition partially offset by lower transaction volumes and lower money market related distribution fees. The sequential increase reflects the GIS acquisition partially offset by lower transaction volumes.

See the Institutional Services Group in Review of businesses for additional details.

Asset and wealth management fees

Asset and wealth management fees totaled $696 million in the third quarter of 2010, an increase of 5% year-over-year and 1% (unannualized) sequentially. Excluding performance fees and income from consolidated asset management funds, net of noncontrolling interests, these fees totaled $716 million, an increase of 8% compared with the prior year period and 3% (unannualized) sequentially. The year-over-year increase reflects improved market values, the Insight acquisition and the impact of net new business. The sequential increase primarily reflects the impact of net new business and higher market values.

Total AUM for the Asset and Wealth Management Group were $1.14 trillion at Sept. 30, 2010 compared with $1.05 trillion at June 30, 2010 and $966 billion at Sept. 30, 2009. This represents an increase of 18% compared with the prior year and 9% sequentially. The year-over-year increase was primarily due to the acquisition of Insight, higher market values and net new business. The sequential increase primarily reflects higher market values and net new business. The S&P 500 Index was 1141

at Sept. 30, 2010 compared with 1031 at June 30, 2010 (an 11% increase) and 1057 at Sept 30, 2009 (an 8% increase).

See the Asset and Wealth Management Group in Review of businesses for additional details regarding the drivers of asset and wealth management fees.

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue, which is primarily reported in the Asset Servicing business, was $146 million in the third quarter of 2010, a decrease of 41% compared with the third quarter of 2009, and 34% (unannualized) compared with the second quarter of 2010. In the third quarter of 2010, foreign exchange revenue totaled $160 million, a decrease of 35% sequentially, driven by seasonality and lower volatility. Other trading revenue was a negative $14 million in the third quarter of 2010, largely due to a decline in long-term interest rates.

Treasury services

Treasury services fees, which are primarily reported in the Treasury Services business, include fees related to funds transfer, cash management and liquidity management. Treasury services fees increased $4 million compared with the third quarter of 2009 and $7 million compared with the second quarter of 2010. The increases compared with both prior periods primarily resulted from higher global payment services revenue.

Distribution and servicing fees

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

Distribution and servicing fee revenue decreased $17 million compared with the third quarter of 2009 and increased $5 million compared with the second quarter of 2010. The year-over-year decrease primarily reflects lower money market assets under management and higher redemptions in prior periods. The sequential increase reflects a reduction

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in fee waivers. The impact of distribution and servicing fees on income in any one period can be more than offset by distribution and servicing expense paid to other financial intermediaries to cover their cost for distribution and servicing of mutual funds. Distribution and servicing expense is recorded as noninterest expense on the income statement.

Financing-related fees

Financing-related fees, which are primarily reported in the Treasury Services business, include capital markets fees, loan commitment fees and credit-related trade fees. Financing-related fees decreased $7 million compared with the third quarter of 2009 and increased $1 million sequentially. The year-over-year decrease was primarily driven by lower credit related fees.

Investment income

Investment income				**Year-to-date**	
(in millions)	**3Q10**	2Q10	3Q09	**2010**	2009
Corporate/bank-owned life insurance	**$ 39**	$ 37	$ 42	**$ 112**	$ 114
Lease residual gains	**1**	14	55	**67**	71
Equity investment income (loss)	**9**	20	1	**41**	(40)
Private equity gains (losses)	**8**	6	8	**19**	(21)
Seed capital gains (losses)	**7**	(5)	15	**5**	24
Total investment income	**$ 64**	$ 72	$ 121	**$ 244**	$ 148

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

Other revenue

Other revenue				**Year-to-date**	
(in millions)	**3Q10**	2Q10	3Q09	**2010**	2009
Asset-related gains	**$ 11**	$ 3	$ 54	**$ 17**	$ 76
Expense reimbursements from joint ventures	**10**	8	9	**28**	24
Economic value payments	**3**	-	-	**3**	-
Other income (loss)	**9**	62	21	**95**	8
Total other revenue	**$ 33**	$ 73	$ 84	**$ 143**	$ 108

Other revenue includes asset-related gains, expense reimbursements from joint ventures, economic value payments and other income (loss). Asset-related gains include loan, real estate and other asset dispositions. Expense reimbursements from joint ventures relate to expenses incurred by BNY Mellon on behalf of joint ventures. Economic value payments relate to deposits from the GIS acquisition that have not yet transferred to BNY Mellon. Other income (loss) primarily includes foreign currency translation, other investments and various miscellaneous revenues.

Total other revenue decreased in the third quarter of 2010 compared with the third quarter of 2009 primarily due to the gain on the sale of VISA shares in the third quarter of 2009. The sequential decrease was primarily due to lower foreign currency translation revenue.

Net investment securities gains (losses)

Net securities gains totaled $6 million in the third quarter of 2010, compared with net losses of $4.8 billion in the third quarter of 2009 and net gains of $13 million in the second quarter of 2010. The loss in the third quarter of 2009 primarily resulted from a charge related to restructuring the investment securities portfolio.

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

Net securities gains (losses)				**Year-to-date**	
(in millions)	**3Q10**	2Q10	3Q09	**2010**	2009
Alt-A RMBS	**$ -**	$ (6)	$ (2,857)	**$ (13)**	$ (3,096)
Prime RMBS	**-**	-	(999)	**-**	(1,011)
Subprime RMBS	**-**	-	(321)	**-**	(322)
Home equity lines of credit	**-**	-	(234)	**-**	(256)
European floating rate notes	**(3)**	-	(234)	**(3)**	(304)
Credit cards	**-**	-	-	**-**	(28)
Commercial MBS	**-**	-	(89)	**-**	(89)
Other	**9**	19	(99)	**42**	(278)
Net securities gains (losses)	**$ 6**	$ 13	$ (4,833)	**$ 26**	$ (5,384)

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

Fee and other revenue for the first nine months of 2010 totaled $7.9 billion compared with $2.2 billion in the first nine months of 2009. The increase primarily reflects net securities losses reported in

2009, as well as higher asset servicing fees reflecting the impact of the Acquisitions, higher asset and wealth management revenue and higher investment income, offset in part by lower securities lending revenue and foreign exchange and other trading revenue.

Net securities gains were $26 million for the first nine months of 2010 compared with a net loss of $5.4 billion for the first nine months of 2009. The net securities losses in 2009 primarily resulted from the charge recorded in the third quarter of 2009 related to restructuring the investment securities portfolio. The increase in asset servicing fees primarily reflects the impact of the Acquisitions, as well as higher market values and net new business. The increase in asset and wealth management fees in the first nine months of 2010 reflects improved market values, the Insight acquisition and the impact of long-term inflows, partially offset by a reduction in fees due to money market outflows and higher fee waivers. The decrease in securities lending revenue in the first nine months of 2010 primarily reflects narrower spreads and lower loan balances. The decrease in foreign exchange and other trading revenue in the first nine months of 2010 was driven by lower foreign exchange volatility and lower fixed income trading revenue. The decrease in issuer services fees in the first nine months of 2010 primarily reflects decreased activity in the global debt markets and lower money market related distribution fees.

Operations of consolidated asset management funds

On Jan. 1, 2010, we adopted ASC 810. See Notes 2 and 13 in the Notes to Consolidated Financial Statements for additional information. Adoption of this standard resulted in an increase in consolidated total assets on our balance sheet at Sept. 30, 2010 of $14.4 billion, or an increase of approximately 7% from Dec. 31, 2009.

We also separately disclosed the following on the income statement.

Income from consolidated asset management funds, net of noncontrolling interests				**Year-to-date**	
(in millions)	**3Q10**	2Q10	3Q09	**2010**	2009
Operations of consolidated asset management funds	**$ 37**	$ 65	$ -	**$ 167**	$ -
Noncontrolling interest of consolidated asset management funds	**(12)**	33	-	**45**	-
Income from consolidated asset management funds, net of noncontrolling interests	**$ 49**	$ 32	$ -	**$ 122**	$ -

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

				Year-to-date	
(in millions)	**3Q10**	2Q10	3Q09	**2010**	2009
Asset and wealth management revenue	**$ 36**	$ 29	$ -	**$ 90**	$ -
Investment income	**13**	3	-	**32**	-
Total	$ 49	$ 32	$ -	**$ 122**	$ -

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Net interest revenue

Net interest revenue				**3Q10 vs.**		**Year-to-date**		**YTD10 vs.**
(dollars in millions)	**3Q10**	2Q10	3Q09	**3Q09**	**2Q10**	**2010**	2009	**YTD09**
Net interest revenue (non-FTE)	**$ 718**	$ 722	$ 716	**-%**	**(1)%**	**$ 2,205**	$ 2,191	**1%**
Tax equivalent adjustment	**5**	5	5	**N/M**	**N/M**	**15**	13	**N/M**
Net interest revenue (FTE) Non-GAAP	**$ 723**	$ 727	$ 721	**-%**	**(1)%**	**$ 2,220**	$ 2,204	**1%**
Average interest-earning assets	**$ 172,759**	$ 167,119	$ 155,159	**11%**	**3%**	**$ 167,804**	$ 159,916	**5%**
Net interest margin (FTE)	**1.67%**	1.74%	1.85%	**(18)bps**	**(7)bps**	**1.77%**	1.84%	**(7)bps**

N/M Not meaningful.

bps basis points.

Net interest revenue totaled $718 million in the third quarter of 2010 compared with $716 million in the third quarter of 2009 and $722 million in the second quarter of 2010.

The slight increase in net interest revenue compared with 3Q09 resulted from a higher yield on the restructured investment securities portfolio and higher average interest-earning assets, offset by lower spreads. Sequentially, net interest revenue decreased slightly as lower spreads more than offset the impact of higher average interest-earning assets.

The net interest margin was 1.67% in the third quarter of 2010 compared with 1.85% in the third quarter of 2009 and 1.74% in the second quarter of 2010. The decrease compared with both prior periods reflects higher average interest-earning assets in a lower rate environment.

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

Net interest revenue totaled $2.2 billion in the first nine months of 2010, an increase of 1% compared with the first nine months of 2009. The increase primarily reflects the higher yield on the restructured investment securities portfolio and higher average interest-earning assets, partially offset by narrowing spreads.

The net interest margin was 1.77% in the first nine months of 2010, compared with 1.84% in the first nine months of 2009. Lower spreads and higher interest-earning assets in a lower rate environment more than offset the higher yield on the restructured investment securities portfolio.

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Average balances and interest rates

Average balances and interest rates *(a)*	Quarter ended					
	Sept. 30, 2010		June 30, 2010		Sept. 30, 2009	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates	Average balance	Average rates
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign banks)	**$ 60,431**	**0.93%**	$ 50,741	1.01%	$ 54,343	1.08%
Interest-bearing deposits held at the Federal Reserve and other central banks	**9,813**	**0.40**	18,280	0.34	6,976	0.32
Federal funds sold and securities under resale agreements	**4,559**	**0.46**	4,652	0.66	3,443	1.19
Margin loans	**6,269**	**1.47**	5,786	1.49	4,335	1.55
Non-margin loans:						
Domestic offices	**21,110**	**2.74**	20,750	2.89	19,412	3.22
Foreign offices	**9,390**	**1.61**	10,128	1.53	10,788	1.99
Total non-margin loans	**30,500**	**2.39**	30,878	2.45	30,200	2.78
Securities:						
U.S. government obligations	**7,229**	**1.63**	6,162	1.46	4,605	1.45
U.S. government agency obligations	**20,074**	**3.29**	19,629	3.48	17,635	3.79
State and political subdivisions	**615**	**6.43**	638	6.56	639	7.30
Other securities	**30,075**	**3.86**	27,601	4.14	31,010	3.04
Trading securities	**3,194**	**2.57**	2,752	2.62	1,973	2.30
Total securities	**61,187**	**3.36**	56,782	3.58	55,862	3.16
Total interest-earning assets	**172,759**	**2.03%**	167,119	2.08%	155,159	2.14%
Allowance for loan losses	**(538)**		(517)		(425)	
Cash and due from banks	**3,903**		3,673		3,247	
Other assets	**50,007**		46,266		45,728	
Assets of discontinued operations	**247**		260		2,077	
Assets of consolidated asset management funds	**13,947**		12,040		-	
Total assets	**$ 240,325**		$ 228,841		$ 205,786	
Liabilities						
Interest-bearing liabilities:						
Money market rate accounts	**$ 25,696**	**0.11%**	$ 24,279	0.10%	$ 16,817	0.09%
Savings	**1,389**	**0.26**	1,389	0.27	1,115	0.32
Certificates of deposit of $100,000 & over	**214**	**0.11**	332	0.16	847	0.62
Other time deposits	**6,210**	**0.23**	5,902	0.26	5,058	0.40
Foreign offices	**70,524**	**0.22**	68,061	0.19	69,795	0.08
Total interest-bearing deposits	**104,033**	**0.19**	99,963	0.17	93,632	0.11
Federal funds purchased and securities sold under repurchase agreements	**5,984**	**0.09**	4,441	0.19	3,075	0.20
Other borrowed funds *(b)*	**4,029**	**1.66**	4,223	2.08	2,286	1.49
Payables to customers and broker-dealers	**6,910**	**0.08**	6,596	0.09	5,844	0.10
Long-term debt	**16,798**	**2.04**	16,462	1.75	17,393	1.74
Total interest-bearing liabilities	**137,754**	**0.45%**	131,685	0.43%	122,230	0.37%
Total noninterest-bearing deposits	**33,198**		34,628		34,920	
Other liabilities	**23,770**		20,042		18,386	
Liabilities of discontinued operations	**247**		260		2,077	
Liabilities and obligations of consolidated asset management funds	**12,778**		11,046		-	
Total liabilities	**207,747**		197,661		177,613	
Temporary equity:						
Redeemable noncontrolling interests	**27**		12		-	
Permanent equity:						
Total BNY Mellon shareholders equity	**31,868**		30,462		28,144	
Noncontrolling interest	**19**		18		29	

Noncontrolling interests of consolidated asset management funds	**664**	688	-	
Total permanent equity	**32,551**	31,168	28,173	
Total liabilities, temporary equity and permanent equity	**$ 240,325**	$ 228,841	$ 205,786	
Net interest margin Taxable equivalent basis	**1.67%**	1.74%		1.85%

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

(b) Includes average trading liabilities of $1,961 million for the third quarter of 2010, $1,668 million for the second quarter of 2010 and $1,428 million for the third quarter of 2009.

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 *(a)*	Year-to-date			
	2010		2009	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates
Assets				
Interest-earning assets:				
Interest-bearing deposits with banks (primarily foreign banks)	**$ 55,674**	**0.99%**	$ 55,913	1.27%
Interest-bearing deposits held at the Federal Reserve and other central banks	**13,399**	**0.35**	12,109	0.37
Other short-term investments U.S. government-backed commercial paper	**-**	**-**	419	3.15
Federal funds sold and securities under resale agreements	**4,359**	**0.60**	2,888	1.12
Margin loans	**5,769**	**1.48**	4,230	1.60
Non-margin loans:				
Domestic offices	**20,463**	**2.92**	20,597	3.10
Foreign offices	**9,660**	**1.59**	12,008	2.27
Total non-margin loans	**30,123**	**2.49**	32,605	2.79
Securities:				
U.S. government obligations	**6,666**	**1.50**	2,371	1.62
U.S. government agency obligations	**19,714**	**3.45**	14,836	3.76
State and political subdivisions	**641**	**6.47**	705	6.96
Other securities	**28,781**	**4.06**	31,879	3.41
Trading securities	**2,678**	**2.57**	1,961	2.54
Total securities	**58,480**	**3.52**	51,752	3.45
Total interest-earning assets	**167,804**	**2.10%**	159,916	2.23%
Allowance for loan losses	**(519)**		(410)	
Cash and due from banks	**3,698**		3,823	
Other assets	**47,223**		45,860	
Assets of discontinued operations	**466**		2,238	
Assets of consolidated asset management funds	**12,910**		-	
Total assets	**$ 231,582**		$ 211,427	
Liabilities				
Interest-bearing liabilities:				
Money market rate accounts	**$ 23,920**	**0.10%**	$ 18,133	0.10%
Savings	**1,383**	**0.27**	1,116	0.46
Certificates of deposit of $100,000 & over	**396**	**0.20**	1,087	0.95
Other time deposits	**5,782**	**0.26**	4,939	0.48
Foreign offices	**70,206**	**0.19**	72,865	0.18
Total interest-bearing deposits	**101,687**	**0.17**	98,140	0.19
Federal funds purchased and securities sold under repurchase agreements	**4,715**	**0.12**	2,471	(0.05)
Other borrowed funds *(b)*	**3,690**	**1.90**	2,937	1.38
Borrowings from Federal Reserve related to asset-backed commercial paper	**-**	**-**	419	2.25
Payables to customers and broker-dealers	**6,628**	**0.08**	4,854	0.14
Long-term debt	**16,689**	**1.76**	16,567	2.25
Total interest-bearing liabilities	**133,409**	**0.41%**	125,388	0.49%
Total noninterest-bearing deposits	**33,718**		36,915	
Other liabilities	**20,766**		18,503	
Liabilities of discontinued operations	**466**		2,238	
Liabilities and obligations of consolidated asset management funds	**11,792**		-	
Total liabilities	**200,151**		183,044	
Temporary equity:				
Redeemable noncontrolling interests	**13**		-	
Permanent equity:				
Total BNY Mellon shareholders equity	**30,691**		28,352	
Noncontrolling interest	**20**		31	
Noncontrolling interests of consolidated asset management funds	**707**		-	
Total permanent equity	**31,418**		28,383	
Total liabilities, temporary equity and permanent equity	**$ 231,582**		$ 211,427	

Net interest margin	Taxable equivalent basis	**1.77%**	1.84%

(a) Presented on a continuing operations basis even though the balance sheet is not restated for discontinued operations.
(b) Includes average trading liabilities of $1,605 million for the first nine months of 2010 and $1,173 million for the first nine months of 2009.
Note: Interest and average rates were calculated on a taxable equivalent basis, at tax rates approximating 35%, using dollar amounts in thousands and actual number of days in the year.

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Noninterest expense

Noninterest expense *(dollars in millions)*	**3Q10**	2Q10	3Q09	**3Q10 vs. 3Q09**	**3Q10 vs. 2Q10**	**Year-to-date 2010**	Year-to-date 2009	**YTD10 vs. YTD09**
Staff:								
Compensation	**$ 850**	$ 763	$ 747	**14%**	**11%**	**$ 2,366**	$ 2,219	**7%**
Incentives	**289**	272	242	**19**	**6**	**845**	730	**16**
Employee benefits	**205**	199	168	**22**	**3**	**587**	530	**11**
Total staff	**1,344**	1,234	1,157	**16**	**9**	**3,798**	3,479	**9**
Professional, legal and other purchased services	**282**	256	265	**6**	**10**	**779**	739	**5**
Net occupancy	**150**	143	142	**6**	**5**	**430**	423	**2**
Software	**108**	91	95	**14**	**19**	**293**	269	**9**
Distribution and servicing	**94**	90	97	**(3)**	**4**	**273**	302	**(10)**
Furniture and equipment	**79**	71	76	**4**	**11**	**225**	229	**(2)**
Business development	**63**	68	45	**40**	**(7)**	**183**	138	**33**
Sub-custodian	**60**	65	49	**22**	**(8)**	**177**	148	**20**
Other	**249**	201	232	**7**	**24**	**636**	667	**(5)**
Subtotal	**2,429** *(a)*	2,219	2,158	**13**	**9**	**6,794**	6,394	**6**
Special litigation reserves	**N/A**	N/A	N/A	**N/M**	**N/M**	**164**	N/A	**N/M**
FDIC special assessment	**-**	-	-	**N/M**	**N/M**	**-**	61	**N/M**
Amortization of intangible assets	**111**	98	104	**7**	**13**	**306**	319	**(4)**
Restructuring charges	**15**	(15)	(5)	**N/M**	**N/M**	**7**	11	**(36)**
M&I expenses	**56**	14	54	**4**	**N/M**	**96**	181	**(47)**
Total noninterest expense	**$ 2,611**	$ 2,316	$ 2,311	**13%**	**13%**	**$ 7,367**	$ 6,966	**6%**
Total staff expense as a percent of total revenue	**39%**	37%	N/M *(b)*			**38%**	N/M *(b)*	
Employees at period end	**47,700**	42,700	42,000	**14%**	**12%**	**47,700**	42,000	**14%**

(a) Noninterest expense from the Acquisitions was $185 million in the third quarter of 2010.
(b) Total staff expense as a percentage of total revenue excluding net securities gains (losses) was 35% in the third quarter of 2009 and 36% in the first nine months of 2009.
N/A Not applicable.
N/M Not meaningful.

Total noninterest expense increased $300 million compared with the third quarter of 2009 and $295 million compared with the second quarter of 2010. Excluding intangible amortization, restructuring charges and merger and integration expenses (M&I), noninterest expense increased $271 million year-over-year and $210 million sequentially. Both increases primarily reflect the Acquisitions and higher litigation and software expenses. The year-over-year increase was also driven by the impact of the Insight acquisition, higher compensation expense and business development expense.

Staff expense

Given our mix of fee-based businesses, which are staffed with high quality professionals, staff expense comprised 55% of total noninterest expense, excluding amortization of intangible assets, restructuring charges and M&I expenses.

The increase in staff expense compared with the third quarter of 2009 and the second quarter of 2010 primarily reflects the impact of the Acquisitions and higher incentive expense

primarily in the Asset Management business. The year-over-year increase in staff expense also reflects the impact of the Insight acquisition and the annual merit increase which was effective in the second quarter of 2010.

Non-staff expense

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

Non-staff expense, excluding amortization of intangible assets, restructuring charges and M&I expenses, totaled $1.1 billion in the third quarter of 2010 compared with $1.0 billion in both the third quarter of 2009 and second quarter of 2010. Both increases primarily reflect the impact of the Acquisitions as well as higher litigation and software expenses. The increase compared with the third quarter of 2009 also reflects the impact of the Insight acquisition, higher professional, legal and other

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purchased services expenses, business development and sub-custodian expenses.

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

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

In the third quarter of 2010, we incurred $56 million of M&I expenses primarily related to the integrations of the Acquisitions.

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

Noninterest expense in the first nine months of 2010 increased $401 million, or 6%, compared with the first nine months of 2009. The increase primarily reflects the impact of the Acquisitions, the Insight acquisition, special litigation reserves, higher incentives, professional, legal and other purchased services, business development activity and software expense, partially offset by the FDIC special assessment in the second quarter of 2009, lower M&I expenses and distribution and servicing expenses.

Support agreements

In 2008, we voluntarily entered into agreements under which we committed to provide support to clients invested in money market mutual funds, cash sweep funds and similar collective funds, managed by our affiliates, as well as clients invested in funds within our securities lending business. These support agreements were designed to enable these funds to continue to operate at a stable net asset value.

In the third quarter of 2010, we recorded charges of $15 million (pre-tax) related to these funds. This charge was driven by a cash contribution to five Dreyfus money market funds primarily for a realized loss which arose from the financial crisis, partially offset by a reduction in the support agreement reserve primarily due to improved pricing of Lehman securities. At Sept. 30, 2010, the value of Lehman securities increased to approximately 21.5% from 19.5% at June 30, 2010.

At Sept. 30, 2010, our potential maximum exposure to support agreements was approximately $111 million, after deducting the reserve. Potential maximum exposure is based on the securities subject to these agreements being valued at zero and the NAV of the related funds declining below established thresholds. This exposure includes agreements covering Lehman securities ($98 million) as well as other client agreements ($13 million).

Income taxes

The effective tax rate on a continuing operations basis for the third quarter of 2010 was 26.4% reflecting a discrete benefit of approximately $0.02 per common share, largely driven by a change in state and local tax laws. This compares with 30.2% in the second quarter of 2010. In the third quarter of 2009, BNY Mellon recorded a tax benefit of $1.5 billion primarily as a result of investment securities losses. Excluding the impact of the investment securities losses and M&I expenses, the effective tax rate was 31.8% in the third quarter of 2009. Excluding the impact of restructuring charges and M&I expenses, the effective tax rate was 27.3% in the third quarter of 2010.

We expect the effective tax rate to be approximately 28-30% for the fourth quarter of 2010.

On Aug. 10, 2010 a series of changes in federal tax laws affecting international operations were enacted as part of the Education, Jobs and Medicaid Assistance Act. One of the changes limits the ability to credit foreign taxes in certain circumstances. Although BNY Mellon is in the process of evaluating the full impact of the change, it is likely to increase BNY Mellon s effective tax rate in 2011, if our efforts to mitigate the increase are unsuccessful.

Review of businesses

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

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

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results of the businesses will track their economic performance.

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

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

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

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

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

Our businesses continued to face a challenging operating environment in the third quarter of 2010. Year-over-year higher market values and new business benefited the Asset and Wealth management businesses, while a stagnant securitization market continues to negatively impact results in Issuer Services. Results in Asset Servicing benefited from the Acquisitions, higher market values, new business and asset inflows from existing clients but were negatively impacted by lower foreign currency volumes and volatility as well as narrower spreads and lower loan balances in securities lending. Money market fee waivers also continue to suppress results in Asset Management, Issuer and Clearing Services, while lower NYSE share volumes, down 17% year-over-year, continued to impact results in Clearing Services. On a sequential basis, the Acquisitions, new business, and increased market values were partially offset by lower foreign currency volumes and volatility and a 26% decrease in NYSE share volume. Compared with the third quarter of 2009, net interest revenue increased in several businesses driven by the higher yield related to the restructured investment securities portfolio and a higher level of interest-earning assets, partially offset by lower spreads. Sequentially, net interest revenue decreased in the Institutional Services Group reflecting lower spreads.

Net securities gains (losses) are recorded in the Other business. Noninterest expense increased compared with both the third quarter of 2009 and the second quarter of 2010 in Asset Servicing, Clearing Services and Treasury Services primarily as a result of the Acquisitions partially offset by overall expense control. In addition, year-over-year results in the Asset Management business were impacted by the Insight acquisition.

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

Market indices						**3Q10 vs.**		**Year-to-date**		**YTD10 vs.**
	3Q09	4Q09	1Q10	2Q10	**3Q10**	**3Q09**	**2Q10**	**2010**	2009	**YTD09**
S&P 500 Index *(a)*	1057	1115	1169	1031	**1141**	**8%**	**11%**	**1141**	1057	**8%**
S&P 500 Index daily average	995	1088	1123	1135	**1095**	**10**	**(4)**	**1118**	900	**24**
FTSE 100 Index *(a)*	5134	5413	5680	4917	**5549**	**8**	**13**	**5549**	5134	**8**
FTSE 100 Index daily average	4708	5235	5431	5361	**5312**	**13**	**(1)**	**5368**	4342	**24**
NASDAQ Composite Index *(a)*	2122	2269	2398	2109	**2369**	**12**	**12**	**2369**	2122	**12**
Lehman Brothers Aggregate Bond℠ Index *(a)*	304	301	300	299	**329**	**8**	**10**	**329**	304	**8**
MSCI EAFE® Index *(a)*	1553	1581	1584	1348	**1561**	**1**	**16**	**1561**	1553	**1**
NYSE Share Volume *(in billions)*	126	112	103	140	**104**	**(17)**	**(26)**	**347**	438	**(21)**

NASDAQ Share Volume *(in billions)*	144	131	143	159	**129**	**(10)**	**(19)**	**431**	432	**-**

(a) Period end.

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Average daily U.S. fixed-income trading volume was up 5% sequentially and 15% year-over-year. Total debt issuances, primarily high yield products, were up 16% sequentially and 11% year-over-year.

The period end S&P 500 Index increased 11% sequentially and 8% year-over-year. The period end FTSE 100 Index increased 13% sequentially and 8% year-over-year. On a daily average basis, the S&P 500 Index decreased 4% sequentially and increased 10% year-over-year while the FTSE 100 Index decreased 1% sequentially and increased 13% year-over-year. The period end NASDAQ Composite Index increased 12% both sequentially and year-over-year.

The changes in the value of market indices primarily impact fee revenue in the Asset and Wealth Management businesses and to a lesser extent our securities servicing businesses.

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

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

For the quarter ended

Sept. 30, 2010

(dollar amounts in millions)	**Asset Management**	**Wealth Management**	**Total Asset and Wealth Management Group**	**Asset Servicing**	**Issuer Services**	**Clearing Services**	**Treasury Services**	**Total Institutional Services Group**	**Other Business**	**Total continuing operations**
Fee and other revenue	**$ 665** *(a)*	**$ 144**	**$ 809**	**$ 989**	**$ 399**	**$ 293**	**$ 214**	**$ 1,895**	**$ 13**	**$ 2,717** *(a)*
Net interest revenue	**(1)**	**58**	**57**	**215**	**204**	**90**	**148**	**657**	**4**	**718**
Total revenue	**664**	**202**	**866**	**1,204**	**603**	**383**	**362**	**2,552**	**17**	**3,435**
Provision for credit losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(22)**	**(22)**
Noninterest expense	**546**	**149**	**695**	**902**	**325**	**287**	**194**	**1,708**	**208**	**2,611**
Income before taxes	**$ 118** *(a)*	**$ 53**	**$ 171**	**$ 302**	**$ 278**	**$ 96**	**$ 168**	**$ 844**	**$ (169)**	**$ 846** *(a)*
Pre-tax operating margin *(b)*	**18%**	**26%**	**20%**	**25%**	**46%**	**25%**	**47%**	**33%**	**N/M**	**24%**
Average assets	**$ 27,389**	**$ 10,806**	**$ 38,195**	**$ 69,026**	**$ 48,451**	**$ 21,456**	**$ 25,748**	**$ 164,681**	**$ 37,202**	**$ 240,078** *(c)*
Excluding intangible amortization:										
Noninterest expense	**$ 496**	**$ 140**	**$ 636**	**$ 884**	**$ 304**	**$ 279**	**$ 188**	**$ 1,655**	**$ 209**	**$ 2,500**
Income before taxes	**168**	**62**	**230**	**320**	**299**	**104**	**174**	**897**	**(170)**	**957**
Pre-tax operating margin *(b)*	**25%**	**31%**	**27%**	**27%**	**50%**	**27%**	**48%**	**35%**	**N/M**	**28%**

(a) Total fee and other revenue and income before taxes for the third quarter of 2010 includes income from consolidated asset management funds of $37 million net of a loss attributable to noncontrolling interests of $12 million. The net of these income statement line items of $49 million is included above in fee and other revenue.

(b) Income before taxes divided by total revenue.
(c) Including average assets of discontinued operations of $247 million for the third quarter of 2010, consolidated average assets were $240,325 million.
N/M Not meaningful.

For the quarter ended June 30, 2010

(dollar amounts in millions)	Asset Management	Wealth Management	Total Asset and Wealth Management Group	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Group	Other Business	Total continuing operations
Fee and other revenue	$ 621 *(a)*	$ 147	$ 768	$ 906	$ 380	$ 276	$ 196	$ 1,758	$ 61	$ 2,587 *(a)*
Net interest revenue	1	56	57	216	216	93	161	686	(21)	722
Total revenue	622	203	825	1,122	596	369	357	2,444	40	3,309
Provision for credit losses	-	-	-	-	-	-	-	-	20	20
Noninterest expense	501	154	655	786	339	277	193	1,595	66	2,316
Income before taxes	$ 121 *(a)*	$ 49	$ 170	$ 336	$ 257	$ 92	$ 164	$ 849	$ (46)	$ 973 *(a)*
Pre-tax operating margin *(b)*	19%	24%	21%	30%	43%	25%	46%	35%	N/M	29%
Average assets	$ 24,895	$ 10,399	$ 35,294	$ 62,940	$ 48,938	$ 21,550	$ 26,485	$ 159,913	$ 33,374	$ 228,581 *(c)*
Excluding intangible amortization:										
Noninterest expense	$ 451	$ 145	$ 596	$ 781	$ 318	$ 270	$ 188	$ 1,557	$ 65	$ 2,218
Income before taxes	171	58	229	341	278	99	169	887	(45)	1,071
Pre-tax operating margin *(b)*	27%	28%	28%	30%	47%	27%	47%	36%	N/M	32%

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

(b) Income before taxes divided by total revenue.

(c) Including average assets of discontinued operations of $260 million for the second quarter of 2010, consolidated average assets were $228,841 million.

N/M Not meaningful.

For the quarter ended March 31, 2010

(dollar amounts in millions)	Asset Management	Wealth Management	Total Asset and Wealth Management Group	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Group	Other Business	Total continuing operations
Fee and other revenue	$ 629 *(a)*	$ 146	$ 775	$ 798	$ 358	$ 271	$ 225	$ 1,652	$ 143	$ 2,570 *(a)*
Net interest revenue	-	55	55	210	252	95	176	733	(23)	765
Total revenue	629	201	830	1,008	610	366	401	2,385	120	3,335
Provision for credit losses	-	-	-	-	-	-	-	-	35	35
Noninterest expense	483	145	628	723	324	261	188	1,496	316	2,440
Income before taxes	$ 146 *(a)*	$ 56	$ 202	$ 285	$ 286	$ 105	$ 213	$ 889	$ (231)	$ 860 *(a)*
Pre-tax operating margin *(b)*	23%	28%	24%	28%	47%	29%	53			