Liquidity and dividends

BNY Mellon defines liquidity as the ability of the Company and its subsidiaries to access funding or convert assets to cash quickly and 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 flow, without adversely affecting daily operations or financial conditions. Liquidity risk can arise from cash flow mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets or deposit run-off.

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 loan commitments, thereby reducing unanticipated funding requirements.

When monitoring liquidity, we evaluate multiple metrics to ensure ample liquidity for expected and unexpected events. Metrics include cashflow mismatches, asset maturities, access to debt and money markets, debt spreads, peer ratios, unencumbered collateral, funding sources and balance sheet liquidity ratios. We have begun to monitor the Basel III liquidity coverage ratio as applied to us, based on our current interpretation of Basel III. 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 assets, foreign deposits as a percentage of total assets, purchased funds as a percentage of total assets, liquid assets as a percentage of total assets and liquid assets as a percentage of purchased funds. All of these ratios exceeded our minimum guidelines at Dec. 31, 2010. We also perform stress tests to verify sufficient funding capacity is accessible after conducting multiple economic scenarios.

At Dec. 31, 2010, we had approximately $55.4 billion of liquid funds and $22.2 billion of cash (including approximately $18.5 billion in overnight deposits with the Federal Reserve and other central banks) for a total of approximately $77.6 billion of available funds. This compares with available funds of $70.9 billion at Dec. 31, 2009. Our percentage of liquid assets to total assets was 31% at Dec. 31, 2010, compared with 33% at Dec. 31, 2009. The decrease from Dec. 31, 2009, primarily resulted from the adoption of ASC 810 (SFAS No. 167), which increased the consolidated total assets on our balance sheet by $14.6 billion at Dec. 31, 2010.

On an average basis for 2010 and 2009, non-core sources of funds such as money market rate accounts, certificates of deposit greater than $100,000, federal funds purchased, trading liabilities and other borrowings were $34.9 billion and $25.1 billion, respectively. The increase primarily reflects higher levels of money market rate accounts and federal funds purchased. Average foreign deposits, primarily from our European-based securities servicing business, were $71.4 billion in 2010 compared with $72.6 billion in 2009. Domestic savings and other time deposits averaged $7.0 billion in 2010 compared with $6.1 billion in 2009.

Average payables to customers and broker-dealers were $6.4 billion in 2010 and $5.3 billion in 2009. Long-term debt averaged $16.7 billion in 2010 and $16.9 billion in 2009. Average noninterest-bearing deposits decreased to $35.2 billion in 2010 from $36.4 billion in 2009. A significant reduction in our securities servicing businesses would reduce our access to deposits.

The Parent has five major sources of liquidity:

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

As a result of charges recorded in 2009 related to the restructuring of the investment securities portfolio, The Bank of New York Mellon and BNY Mellon, N.A. are required to obtain consent from our regulators prior to paying a dividend. Despite this limitation, management estimates that liquidity at the Parent will continue to be sufficient to meet BNY Mellon's ongoing quarterly dividends at the current level of $0.09 per share, as well as any increase to the dividend approved as part of our capital plan which was submitted to the Federal Reserve in 2011. In addition, at Dec. 31, 2010, non-bank subsidiaries of the Parent had liquid assets of approximately $1.2 billion.

Any increase in BNY Mellon's ongoing quarterly dividends would require consultation with the Federal Reserve. 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 Note 21 of the Notes to Consolidated Financial Statements.

In 2010 and 2009, the Parent's average commercial paper borrowings were $18 million and $186 million, respectively. The Parent had cash of $3.2 billion at Dec. 31, 2010, compared with $4.4 billion at Dec. 31, 2009. The decrease in Parent cash resulted primarily from the paydown of long-term debt in 2010. 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 $10 million and $12 million at Dec. 31, 2010 and 2009, respectively. Net of commercial paper outstanding, the Parent's cash position at Dec. 31, 2010, decreased by $1.2 billion compared with Dec. 31, 2009, reflecting maturities of long-term debt.

The Parent's reliance on short-term unsecured funding sources such as commercial paper, federal funds and Eurodollars purchased, certificates of deposit, time deposits and bank notes is limited. The Parent's liquidity target is to have sufficient cash on hand to meet its obligations over the next 18 months without the need to receive dividends from its bank subsidiaries or issue debt. As of Dec. 31, 2010, the Parent met its liquidity target.

In July 2010, the Parent launched a new commercial paper program, which is in addition to the program discussed above, under which it may issue commercial paper to certain institutional accredited investors in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. Commercial paper notes issued under this program will have a maturity not exceeding 397 days from the date of issuance. There was no commercial paper outstanding under this program at Dec. 31, 2010.

We currently have a $226 million credit agreement with 10 financial institutions that matures in October 2011. The fee on this facility depends on our credit rating and at Dec. 31, 2010, was 6 basis points. The credit agreement requires us to maintain:

- shareholder's equity of $5 billion;
- a ratio of Tier 1 capital plus the allowance for credit losses to nonperforming assets of at least 2.5;
- a double leverage ratio less than 130%; and
- adequate capitalization of all our banks for regulatory purposes.

We are currently in compliance with these covenants. There were no borrowings under this facility at Dec. 31, 2010.

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

Our ability to access the capital markets on favorable terms, or at all, is partially dependent on our credit ratings, which, as of Dec. 31, 2010, were as follows:

Debt ratings at Dec. 31, 2010	Moody's	Standard & Poor's	Fitch	DBRS
Parent:				
Long-term senior debt	Aa2	AA-	AA-	AA (low)
Subordinated debt	Aa3	A+	A+	A (high)
The Bank of New York Mellon:				
Long-term senior debt	Aaa	AA	AA-	AA
Long-term deposits	Aaa	AA	AA	AA
BNY Mellon, N.A.:				
Long-term senior debt	Aaa	AA	AA- *(a)*	AA
Long-term deposits	Aaa	AA	AA	AA
Outlook	**Stable**	**Stable**	**Stable**	**Stable** (long-term)

(a) Represents senior debt issuer default rating.

In April 2010, one of the rating agencies announced that regulatory changes in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), could result in lower debt and deposit ratings for U.S. banks and other financial institutions whose ratings currently benefit from assumed government support. The rating agency anticipates that once implementing regulations clarify the final form of regulatory reform, the potentially affected ratings would be placed under review. The rating agency further indicated it would consider the pace over which any benefits resulting from regulatory reform would accrue versus the likely pace over which systemic support would be curtailed. Currently, the ratings for the Parent benefit from one notch of "lift" and The Bank of New York Mellon and BNY Mellon, N.A. benefit two notches of "lift" as a result of the rating agency's government support assumptions. Other institutions benefit between one and five notches of "lift." If these rating changes occur as proposed, the Parent, The Bank of New York Mellon and BNY Mellon, N.A. would remain at the highest level for all U.S. bank holding companies and U.S. banks.

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

Long-term debt decreased to $16.5 billion at Dec. 31, 2010 from $17.2 billion at Dec. 31, 2009, primarily due to $1.85 billion of senior and subordinated long-term debt that matured in 2010 and $750 million of retail medium-term notes that were called in 2010.

In 2010, we issued $650 million of Senior Notes maturing in 2015 with a 2.95% interest rate, $600 million of Senior Notes maturing in 2016 with a 2.5% interest rate, and $100 million of Floating Rate Senior Notes maturing in 2013.

The Parent has $1.3 billion of long-term debt that will mature in 2011 and has the option to call $592 million of subordinated debt in 2011, which it may call and refinance if market conditions are favorable.

We have $850 million of trust preferred securities that are freely callable in 2011. These securities qualify as Tier 1 capital. Any decision to call these securities will be based on interest rates, the availability of cash and capital, and regulatory conditions, as well as the implementation of the Dodd-Frank Act, which eliminates these trust preferred securities from the Tier 1 capital of large bank holding companies, including BNY Mellon, over a three-year period beginning Jan. 1, 2013.

In June 2010, BNY Mellon priced 25.9 million common shares in an underwritten public offering, at $27.00 per common share. In connection with this offering, BNY Mellon entered into a forward sale agreement with a forward purchaser, who borrowed and sold to the public through the underwriters shares of the Company's common stock. In September 2010, BNY Mellon settled the forward sale agreement. At settlement, BNY Mellon received net proceeds of approximately $677 million. The proceeds were primarily used to fund the acquisition of GIS.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity plus trust preferred securities. Our double leverage ratio at Dec. 31, 2010 and 2009, was 100.7%, and 104.8%, respectively. Our target double leverage ratio is a maximum of 120%. The double leverage ratio is monitored by regulators and rating agencies and is an important constraint on our ability to invest in our subsidiaries and expand our businesses.

Pershing LLC, an indirect subsidiary of BNY Mellon, has committed and uncommitted lines of credit in place for liquidity purposes which are guaranteed by the Parent. The committed line of credit of $935 million extended by 14 financial institutions matures in March 2011. We expect this line of credit will be renewed. In 2010, the daily average borrowing against this line of credit was $93 million. Additionally, Pershing LLC has another committed line of credit for $125 million extended by one financial institution that matures in September 2011. The daily average borrowing against this line of credit was $1 million during 2010. Pershing LLC has six separate uncommitted lines of credit, amounting to $1.4 billion in aggregate. Average daily borrowing under these lines was $592 million, in aggregate, during 2010.

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

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

We are currently in compliance with these covenants.

Pershing Limited, an indirect UK-based subsidiary of BNY Mellon, has committed and uncommitted lines of credit in place for liquidity purposes, which are guaranteed by the Parent. The committed line of credit of $233 million extended by five financial institutions matures in March 2011. We expect this line to be renewed. The average daily borrowing under this line was $5 million, in aggregate, in 2010. Pershing Limited has three separate uncommitted lines of credit amounting to $250 million in aggregate. In 2010, average daily borrowing under these lines was less than $1 million in aggregate.

Statement of cash flows

Cash provided by operating activities was $4.1 billion in 2010, compared with $3.8 billion in 2009 and $2.9 billion in 2008. In 2010 and 2008, the cash flows from operations in 2008 were principally the result of earnings. In 2009, earnings, excluding the non-cash impact of investment securities losses, depreciation and amortization and accruals and other balances, partially offset by deferred tax benefits and changes in trading activities, were a significant source of funds.

In 2010, cash used for investing activities was $14.9 billion compared with cash provided by investing activities of $23.1 billion in 2009 and $56.0 billion used for investing activities in 2008. In 2010, purchases of securities available-for-sale, an increase in interest-bearing deposits with the Federal Reserve and other central banks, and the Acquisitions were a significant use of funds. In 2009, interest-bearing deposits with the Federal Reserve and other central banks was a significant source of funds, partially offset by purchases of securities available for sale. In 2008, interest-bearing deposits at the Federal Reserve and other central banks and interest-bearing deposits with banks were a significant use of funds, and federal funds sold and securities purchased under resale agreements and loans to customers were a significant source of funds.

In 2010, cash provided by financing activities was $10.8 billion, compared to $28.0 billion used for financing activities in 2009 and $51.8 billion provided by financing activities in 2008. In 2010, change in deposits, federal funds purchased and securities sold under repurchase agreements, other funds borrowed and the proceeds from issuances of long-term debt were significant sources of funds, partially offset by repayments of long-term debt. In 2009, change in deposits, other borrowed funds and the repurchase of the Series B preferred stock and the warrant were significant uses of funds, partially offset by proceeds from the issuance of long term debt and common stock, and the change in federal funds purchased and securities sold under repurchase agreements. In 2008, deposits and other funds borrowed, partially offset by use of funds for the repayments of long-term debt and commercial paper were the primary source of funds.

Commitments and obligations

We have contractual obligations to make fixed and determinable payments to third parties as indicated in the table below. The table excludes certain obligations such as trade payables and trading liabilities, where the obligation is short-term or subject to valuation based on market factors.

Contractual obligations at Dec. 31, 2010		Payments due by period			
(in millions)	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Deposits without a stated maturity	**$ 33,359**	$ 33,359	$ -	$ -	$ -
Term deposits	**73,278**	73,235	17	22	4
Federal funds purchased and securities sold under repurchase agreements	**5,602**	5,602	-	-	-
Payables to customers and broker-dealers	**9,962**	9,962	-	-	-
Other borrowed funds	**2,868**	2,868	-	-	-
Long-term debt *(a)*	**21,883**	1,988	6,163	4,929	8,803
Unfunded pension and post retirement benefits	**389**	51	75	75	188
Capital leases	**48**	29	19	-	-
Total contractual obligations	**$147,389**	$127,094	$6,274	$5,026	$8,995

(a) Including interest.

We have entered into fixed and determinable commitments as indicated in the table below:

Other commitments at Dec. 31, 2010		Amount of commitment expiration per period			
(in millions)	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Securities lending indemnifications	**$278,069**	$278,069	$ -	$ -	$ -
Lending commitments	**29,100**	10,513	16,306	1,944	337
Standby letters of credit	**8,483**	6,113	2,183	187	-
Operating leases	**2,225**	311	550	427	937
Commercial letters of credit	**512**	500	12	-	-
Investment commitments *(a)*	**230**	27	6	2	195
Purchase obligations *(b)*	**903**	448	377	55	23
Support agreements	**116**	-	13	103	-
Total commitments	**$319,638**	$295,981	$19,447	$2,718	$1,492

(a) Includes private equity and Community Reinvestment Act commitments.
(b) Purchase obligations are defined as agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms.

In addition to the amounts shown in the table above, at Dec. 31, 2010, $289 million of unrecognized tax benefits have been recorded as liabilities in accordance with ASC 740. Related to these unrecognized tax benefits, we have also recorded a liability for potential interest of $52 million. At this point, it is not possible to determine when these amounts will be settled or resolved.

Off-balance sheet arrangements

Off-balance sheet arrangements required to be discussed in this section are limited to guarantees, retained or contingent interests, support agreements, certain derivative instruments related to our common stock, 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; securities lending indemnifications issued as part of our servicing and fiduciary businesses; and support agreements issued to customers in our asset servicing and asset management businesses. See the "Support agreements" section and Note 25 of the Notes to Consolidated Financial Statements for a further discussion of our off-balance sheet arrangements.

Capital

Capital data *(dollar amounts in millions except per share amounts; common shares in thousands)*	**2010**	2009
At period end:		
BNY Mellon shareholders' equity to total assets ratio	**13.1%**	13.7%
Total BNY Mellon shareholders' equity	**$ 32,354**	$ 28,977
Tangible BNY Mellon shareholders' equity – Non-GAAP *(a)*	**$ 11,057**	$ 9,540
Book value per common share	**$ 26.06**	$ 23.99
Tangible book value per common share – Non-GAAP *(a)*	**$ 8.91**	$ 7.90
Closing common stock price per share	**$ 30.20**	$ 27.97
Market capitalization	**$ 37,494**	$ 33,783
Common shares outstanding	**1,241,530**	1,207,835
Full-year:		
Average common equity to average assets	**13.1%**	13.4%
Cash dividends per common share	**$ 0.36**	$ 0.51
Dividend yield	**1.2%**	1.8%

(a) See Supplemental information beginning on page 65 for a reconciliation of GAAP to non-GAAP.

Total The Bank of New York Mellon Corporation shareholders' equity increased compared with Dec. 31, 2009. The increase primarily reflects earnings retention in 2010, an unrealized gain in the investment securities portfolio resulting from a decline in interest rates and tighter credit spreads and the issuance of $677 million (25.9 million shares) of common equity in 2010.

In June 2010, BNY Mellon priced 25.9 million common shares in an underwritten public offering, at $27.00 per common share. In connection with this offering, BNY Mellon entered into a forward sale agreement with a forward purchaser, who borrowed and sold to the public through the underwriters shares of the Company's common stock. BNY Mellon settled the forward sale agreement in September 2010 and received net proceeds of $677 million from this transaction.

The unrealized net of tax gain on our available-for-sale securities portfolio recorded in other comprehensive income was $151 million at Dec. 31, 2010, compared with an unrealized net of tax loss of $619 million at Dec 31, 2009. The improvement primarily reflects a decline in interest rates and tighter credit spreads.

In January 2011, we declared a quarterly common stock dividend of $0.09 per common share that was paid on Feb. 9, 2011, to shareholders of record as of the close of business on Jan. 31, 2011.

Capital adequacy

Regulators establish certain levels of capital for bank holding companies and banks, including BNY Mellon and our bank subsidiaries, in accordance with established quantitative measurements. For the Parent to maintain its status as a financial holding company, our bank subsidiaries must, among other things, qualify as well capitalized. In addition, major bank holding companies such as the Parent corporation are expected by the regulators to be well capitalized.

As of Dec. 31, 2010 and 2009, the Parent and our bank subsidiaries were considered well capitalized on the basis of the ratios (defined by regulation) of Total and Tier 1 capital to risk-weighted assets and leverage (Tier 1 capital to average assets).

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

Consolidated and largest bank subsidiary capital ratios	Well capitalized	Adequately capitalized	**Dec. 31, 2010**	Dec. 31, 2009
Consolidated capital ratios:				
Tier 1	6%	N/A	**13.4%**	12.1%
Total capital	10	N/A	**16.3**	16.0
Leverage – guideline	5	N/A	**5.8**	6.5
Tangible BNY Mellon shareholders' equity to tangible assets of operations ratio – Non-GAAP *(a)*			**5.8%**	5.2%
Tier 1 common equity to risk-weighted assets ratio *(a)*			**11.8**	10.5
The Bank of New York Mellon capital ratios:				
Tier 1	6%	4%	**11.4%**	11.2%
Total capital	10	8	**15.3**	15.0
Leverage	5	3	**5.3**	6.3

(a) See Supplemental information beginning on page 65 for a calculation of this ratio.
N/A - Not applicable at the consolidated company level.

If a bank holding company or bank fails to qualify as "adequately capitalized", regulatory sanctions and limitations are imposed. At Dec. 31, 2010, the amounts of capital by which BNY Mellon and our largest bank subsidiary, The Bank of New York Mellon, exceed the well-capitalized guidelines are as follows:

Capital above guidelines at Dec. 31, 2010 *(in millions)*	**Consolidated**	**The Bank of New York Mellon**
Tier 1 capital	$7,512	$4,667
Total capital	6,413	4,519
Leverage	1,802	592

The Tier 1 capital ratio varies depending on the size of the balance sheet at quarter-end and the level and types of investments. The balance sheet size fluctuates from quarter to quarter based on levels of customer and market activity. In general, when servicing clients are more actively trading securities, deposit balances and the balance sheet as a whole is higher.

Our Tier 1 capital ratio was 13.4% at Dec. 31, 2010, compared with 12.1% at Dec. 31, 2009. The increase in the Tier 1 capital ratio compared with Dec. 31, 2009, primarily reflects earnings retention, the 2010 common equity issuance of $677 million and lower risk-weighted assets, partially offset by the impact of the Acquisitions. The Acquisitions, net of the equity raise, reduced Tier 1 and Tier 1 common ratios by approximately 195 basis points and the tangible common shareholders' equity ratio by approximately 100 basis points. At Dec. 31, 2010, our total assets were $247.3 billion compared with $212.2 billion at

Dec. 31, 2009. The increase in assets did not impact our risk-weighted assets as the increase was primarily in lower risk-weighted government investments and deposits with the Federal Reserve and other central banks, as well as assets of consolidated asset management funds which are discussed below. Our Tier 1 leverage ratio was 5.8% at Dec. 31, 2010, compared with 6.5% at Dec. 31, 2009. The decrease primarily reflects higher average assets in 2010 compared with 2009 and the impact of the Acquisitions.

In January 2010, the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and the Office of Thrift Supervision issued a final rule requiring banks to hold capital for assets consolidated under ASU 2009-16 and ASU 2009-17. As a result of applying ASU 2009-17, BNY Mellon consolidated approximately $14 billion of collateralized loan obligation ("CLO") funds into trading assets and liabilities as of Dec. 31, 2010. Any loss from the assets of these funds will be absorbed by the senior and junior noteholders of the funds and not by BNY Mellon. The resulting regulatory capital required for these zero-risk positions is de minimis. The final rule allows for a phase-in of 50% of the effect on risk-weighted assets and allowance for loan losses includable in Tier 2 capital that results from implementation of this standard for the quarter ending Dec. 31, 2010, with full phase-in for the quarter ending March 31, 2011. BNY Mellon elected to defer the implementation of ASC 810 for capital purposes. At Dec. 31, 2010, had we fully phased-in the implementation of ASC 810, our Tier 1 capital ratio would have been negatively impacted by approximately 2 basis points.

A billion dollar change in risk-weighted assets changes the Tier 1 ratio by approximately 13 basis points while a $100 million change in common equity changes the Tier 1 ratio by approximately 10 basis points.

Our tangible BNY Mellon shareholders' equity to tangible assets of operations ratio was 5.8% at Dec. 31, 2010, up from 5.2% at Dec. 31, 2009. The increase compared with the prior year primarily reflects earnings retention, the $677 million common equity issuance and an improvement in the value of our investment securities portfolio.

At Dec. 31, 2010, we had approximately $1.7 billion of trust preferred securities outstanding, net of issuance costs, all of which qualifies as Tier 1 capital.

The following tables present the components of our Tier 1 and Total risk-based capital and risk-weighted assets at Dec. 31, 2010 and 2009.

Components of Tier 1 and total risk-based capital *(a)*	**Dec. 31,**	
(in millions)	**2010**	2009
Tier 1 capital:		
Common shareholders' equity	**$ 32,354**	$ 28,977
Trust preferred securities	**1,676**	1,686
Adjustments for:		
Goodwill and other intangibles *(b)*	**(21,297)**	(19,437)
Pensions/cash flow hedges	**1,053**	1,070
Securities valuation allowance	**(170)**	619
Merchant banking investment	**(19)**	(32)
Total Tier 1 capital	**13,597**	12,883
Tier 2 capital:		
Qualifying unrealized gains on equity securities	**5**	3
Qualifying subordinated debt	**2,381**	3,429
Qualifying allowance for credit losses	**571**	665
Total Tier 2 capital	**2,957**	4,097
Total risk-based capital	**$ 16,554**	$ 16,980

(a) On a regulatory basis as determined under Basel 1 guidelines and including discontinued operations.
(b) Reduced by deferred tax liabilities associated with non-tax deductible identifiable intangible assets of $1,625 million at Dec. 31, 2010, and $1,680 million at Dec. 31, 2009, and deferred tax liabilities associated with tax deductible goodwill of $816 million at Dec. 31, 2010, and $720 million at Dec. 31, 2009.

Components of risk-weighted assets *(a)* *(in millions)*	**2010** Balance sheet/ notional amount	**2010** Risk-weighted assets	2009 Balance sheet/ notional amount	2009 Risk-weighted assets
Assets:				
Cash, due from banks and interest-bearing deposits in banks	**$ 72,424**	**$ 10,718**	$ 67,396	$ 11,923
Securities	**66,307**	**18,230**	56,049	17,633
Trading assets	**6,276**	**-**	6,001	-
Fed funds sold and securities purchased under resale agreements	**5,169**	**304**	3,535	17
Loans	**37,808**	**24,368**	36,689	25,746
Allowance for loan losses	**(498)**	**-**	(503)	-
Other assets	**59,773**	**21,127**	43,057	20,589
Total assets	**$ 247,259**	**$ 74,747**	$ 212,224	$ 75,908
Off-balance sheet exposure:				
Commitments to extend credit	**$ 29,845**	**$ 10,946**	$ 33,598	$ 12,180
Securities lending	**279,931**	**101**	249,120	132
Standby letters of credit and other guarantees	**10,696**	**9,341**	14,426	11,886
Derivative instruments	**1,438,995**	**4,678**	1,314,246	4,552
Total off-balance sheet exposure	**$1,759,467**	**$ 25,066**	$1,611,390	$ 28,750
Market risk equivalent assets		**1,594**		1,670
Total risk-weighted assets		**$101,407**		$106,328
Average assets for leverage capital purposes		**$235,905**		$196,857

(a) On a regulatory basis as determined under Basel 1 guidelines and including discontinued operations.

Stock repurchase programs

Share repurchases during fourth quarter 2010 *(common shares in thousands)*	Total shares repurchased	Average price per share	Total shares repurchased as part of a publicly announced plan	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under plans or programs
October 2010	6	$26.98	-	33,800
November 2010	1	25.73	-	33,800
December 2010	35	29.02	-	33,800
Fourth quarter 2010	**42***(a)*	**$28.65**	**-**	**33,800**

(a) These shares were purchased at a purchase price of approximately $1 million from employees, primarily in connection with the employees' payment of taxes upon the vesting of restricted stock.

On Dec. 18, 2007, the Board of Directors of BNY Mellon authorized the repurchase of up to 35 million shares of common stock. There is no expiration date on this repurchase program.

Risk management

Governance

Risk management and oversight begins with the Board of Directors and two key Board committees: the Risk Committee and the Audit Committee.

The Risk Committee is comprised entirely of independent directors and meets on a regular basis to review and assess the control processes with respect to the Company's inherent risks. They also review and assess the risk management activities of the Company and the Company's fiduciary risk policies and activities. Policy formulation and day-to-day oversight of the Risk Management Framework is delegated to the Chief Risk Officer, who, together with the Chief Auditor and Chief Compliance Officer, helps ensure an effective risk management governance structure. The functions of the Risk Committee are described in more detail in its charter, a copy of which is available on our website, www.bnymellon.com.

The Audit Committee is also comprised entirely of independent directors, all of whom are financially literate within the meaning of the NYSE listing standards, and two of whom have been determined to be audit committee financial experts as set out in the rules and regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and to have accounting or related financial management expertise within the meaning of the NYSE listing standards, and who have banking and financial management expertise within the meaning of the FDIC rules. The Audit Committee meets on a regular basis to perform an oversight review of the integrity of the financial statements and financial reporting process, compliance with legal and regulatory requirements, our independent registered public accountant's qualifications and independence, and the performance of our registered public accountant and internal audit function. The Audit Committee also reviews management's assessment of the adequacy of internal controls. The functions of the Audit Committee are described in more detail in its charter, a copy of which is available on our website, www.bnymellon.com.

The Senior Risk Management Committee ("SRMC") is the most senior management body responsible for ensuring that emerging risks are weighed against the corporate risk appetite and that any material amendments to the risk appetite statement are properly vetted and recommended to the Executive Committee and the Board for approval. The SRMC also reviews any material breaches to our risk appetite and approves action plans required to remediate the issue. SRMC provides oversight for the risk management, compliance and ethics framework. The Chief Executive Officer, Chief Risk Officer and Chief Financial Officer are among SRMC's members.

Risk appetite statement

BNY Mellon defines risk appetite as the level of risk it is normally willing to accept while pursuing the interests of our major stakeholders, including our clients, shareholders, employees and regulators. The Company has adopted the following as its risk appetite statement: "Risk taking is a fundamental characteristic of providing financial services and arises in every transaction we undertake. Our risk appetite is driven by the fact that we are a leading provider of financial services and play a major role in the global marketplace. As a result, we are committed to maintaining a balance sheet, which remains strong throughout market cycles, to meet the expectations of our major stakeholders, including our clients, shareholders, employees and regulators. The balance sheet will be characterized by strong liquidity, superior asset quality, ready access to external funding sources at competitive rates and a strong capital structure that supports our risk taking activities and is adequate to absorb potential losses. These characteristics support our goal of superior debt rating versus our peers (currently "AA" at the holding company level). To that end, the company's Risk Management Framework has been designed to:

- ensure that appropriate risk tolerances ("limits") are in place to govern our risk taking activities across all businesses and risk types;
- ensure that our risk appetite principles permeate the company culture and are incorporated into our strategic decision-making processes;
- ensure rigorous monitoring and reporting of key risk metrics to senior management and the board of directors; and
- ensure that there is an on-going, and forward-looking, capital planning process to support our risk taking activities."

Primary risk types

The understanding, identification and management of risk are essential elements for the successful management of BNY Mellon. Our primary risk exposures are:

Type of risk	Description
Operational	The risk of loss resulting from inadequate or failed internal processes, human factors and systems, or from external events.
Market	The risk of loss due to adverse changes in the financial markets. Market risk arises from derivative financial instruments, such as futures, forwards, swaps and options, and other financial instruments, including loans, securities, deposits, and other borrowings. Our market risks are primarily interest rate and foreign exchange risk, equity risk and credit risk.
Credit	The possible loss we would suffer if any of our borrowers or other counterparties were to default on their obligations to us. Credit risk arises primarily from lending, trading, and securities servicing activities.

Operational risk

Overview

In providing a comprehensive array of products and services, we are exposed to operational risk. Operational risk may result from, but is not limited to, errors related to transaction processing, breaches of the internal control system and compliance requirements, fraud by employees or persons outside

BNY Mellon or business interruption due to system failures or other events. Operational risk also includes potential legal or regulatory actions that could arise as a result of noncompliance with applicable laws and/or regulatory requirements. In the case of an operational event, we could suffer a financial loss as well as damage to our reputation. We continue to improve our ability to gather and monitor our risk information across the enterprise.

To address these risks, we maintain comprehensive policies and procedures and an internal control framework designed to provide a sound operational environment. These controls have been designed to manage operational risk at appropriate levels given our financial strength, the business environment and markets in which we operate, the nature of our businesses, and considering factors such as competition and regulation. Our internal auditors and internal control group monitor and test the overall effectiveness of the internal control and financial reporting systems on an ongoing basis.

We have also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed on a uniform basis. Among the procedures designed to ensure effectiveness are our "Code of Conduct," "Know Your Customer," and compliance training programs.

Operational risk management

We have established operational risk management as an independent risk discipline. The Operational Risk Management ("ORM") Group reports to the Chief Risk Officer. The organizational framework for operational risk is based upon a strong risk culture that incorporates both governance and risk management activities comprising:

- Board Oversight and Governance – The Risk Committee of the Board approves and oversees our operational risk management strategy in addition to credit and market risk. The Risk Committee meets regularly to review and approve operational risk management initiatives, discuss key risk issues, and review the effectiveness of the risk management systems.
- Accountability of Businesses – Business managers are responsible for maintaining an effective system of internal controls commensurate with their risk profiles and in accordance with BNY Mellon policies and procedures.
- ORM Group – The ORM Group is responsible for developing risk management policies and tools for assessing, measuring, monitoring and managing operational risk for BNY Mellon. The primary objectives of the ORM group are to promote effective risk management, identify emerging risks, create incentives for generating continuous improvement in controls, and to optimize capital.

Market risk

In addition to the Risk Committee and SRMC, oversight of market risk is performed by certain committees and through executive review meetings. Detailed reviews of derivative trading positions and of all model validations/stress tests results are conducted during the Global Markets Weekly Risk Review. Senior managers from Risk Management and Sales and Trading attend the review.

Business Risk meetings for the Global Markets and Capital Markets businesses also provide a forum for market risk oversight. The goal of Business Risk meetings, which are held at least quarterly, is to review key risk and control issues and related initiatives facing all lines of business including Global Markets and Capital Markets. The following activities are also addressed during Business Risks meetings:

- Reporting of all new Monitoring Limits and changes to existing limits;
- Monitoring of trading exposures, VaR, market sensitivities and stress testing results; and
- Reporting results of all model validations.

The Derivatives Documentation Committee reviews and approves variations in the Company's documentation standards as it relates to derivative transactions. In addition, this committee reviews all outstanding confirmations to identify potential exposure to the Company. Finally, the Risk Quantification and Modelling Committee validates and reviews backtesting results.

Credit risk

To balance the value of our activities with the credit risk incurred in pursuing them, we set and monitor internal credit limits for activities that entail credit risk, most often on the size of the exposure and the maximum maturity of credit extended. For credit exposures driven by changing market rates and prices, exposure measures include an add-on for such potential changes.

We manage credit risk at both the individual exposure level as well as at the portfolio level. Credit risk at the individual exposure level is managed through our credit approval system of Credit Portfolio Managers ("CPMs") and the Chief Credit Officer ("CCO"). The CPMs and CCO are responsible for approving the size, terms and maturity of all credit exposures as well as the ongoing monitoring of the exposures. In addition, they are responsible for assigning and maintaining the risk ratings on each exposure.

Credit risk management at the portfolio level is supported by Enterprise Risk Architecture ("ERA"), formerly the Portfolio Management Division within the Risk Management and Compliance Sector. The ERA is responsible for calculating two fundamental credit measures. First, we project a statistically expected credit loss, used to help determine the appropriate loan loss reserve and to measure customer profitability. Expected loss considers three basic components: the estimated size of the exposure whenever default might occur, the probability of default before maturity and the severity of the loss we would incur, commonly called "loss given default." For Institutional, Wealth and Commercial Real Estate, where most of our credit risk is created, unfunded commitments are assigned a usage given default percentage. Borrowers/Counterparties are assigned ratings by CPMs and the CCO on an 18-grade scale, which translate to a scaled probability of default. Additionally, transactions are assigned loss-given-default ratings (on a 12-grade scale) that reflect the transactions' structures including the effects of guarantees, collateral, and relative seniority of position.

The second fundamental measurement of credit risk calculated by the ERA is called economic capital. Our economic capital model estimates the capital required to support the overall credit risk portfolio. Using a Monte Carlo simulation engine and measures of correlation among borrower defaults, the economic model examines extreme and highly unlikely scenarios of portfolio credit loss in order to estimate credit-related capital, and then allocates that capital to individual borrowers and exposures. The credit-related capital calculation supports a second tier of policy standards and limits by serving as an input to both profitability analysis and concentration limits of capital at risk with any one borrower, industry or country.

The ERA is responsible for the calculation methodologies and the estimates of the inputs used in those methodologies for the determination of expected loss and economic capital. These methodologies and input estimates are regularly evaluated to ensure their appropriateness and accuracy. As new techniques and data become available, the ERA attempts to incorporate, where appropriate, those techniques or data.

Credit risk is intrinsic to much of the banking business and necessary to its smooth functioning. However, BNY Mellon seeks to limit both on and off-balance sheet credit risk through prudent underwriting and the use of capital only where risk-adjusted returns warrant. We seek to manage risk and improve our portfolio diversification through syndications, asset sales, credit enhancements, credit derivatives, and active collateralization and netting agreements. In addition, we have a separate Credit Risk Review group, which is part of Internal Audit, made up of experienced loan review officers who perform timely reviews of the loan files and credit ratings assigned to the loans.

Global compliance

Our global compliance function provides leadership, guidance, and oversight to help our businesses identify applicable laws and regulations and implement effective measures to meet the specific requirements. Compliance takes a proactive approach by anticipating evolving regulatory standards and remaining aware of industry best practices, legislative initiatives, competitive issues, and public expectations and perceptions. The function uses its global reach to disseminate information about compliance-related matters throughout BNY Mellon. The Chief Compliance and Ethics Officer reports to the Chief Risk Officer, is a member of key committees of BNY Mellon and provides regular updates to the Audit and Risk Committees of the Board of Directors.

Internal audit

Our internal audit function reports directly to the Audit Committee of the Board of Directors. Internal audit utilizes a risk-based approach to its audit activity covering the risks in the operational, compliance, regulatory, technology, fraud, processing and other key risk areas of BNY Mellon. Internal Audit has unrestricted access to BNY Mellon and regularly participates in key committees of BNY Mellon.

Economic capital

BNY Mellon has implemented a methodology to quantify economic capital. We define economic capital as the capital required to protect against unexpected economic losses over a one-year period at a level consistent with the solvency of a firm with a target debt rating. We quantify economic capital requirements for the risks inherent in our business activities using statistical modeling techniques and then aggregate them at the consolidated level. A capital reduction, or diversification benefit, is applied to reflect the unlikely event of experiencing an extremely large loss in each type of risk at the same time. Economic capital levels are directly related to our risk profile. As such, it has become a part of our internal capital assessment process and, along with regulatory capital, is a key component to ensuring that the actual level of capital is commensurate with our risk profile, and is sufficient to provide the financial flexibility to undertake future strategic business initiatives.

The framework and methodologies to quantify each of our risk types have been developed by the ERA and are designed to be consistent with our risk management principles. The framework has been approved by senior management and has been reviewed by the Risk Committee of the Board of Directors. Due to the evolving nature of quantification techniques, we expect to continue to refine the methodologies used to estimate our economic capital requirements.

Trading activities and risk management

Our trading activities are focused on acting as a market maker for our customers. The risk from these market-making activities and from our own positions is managed by our traders and limited in total exposure through a system of position limits, a value-at-risk ("VAR") methodology based on a Monte Carlo simulation, stop loss advisory triggers, and other market sensitivity measures. See Note 26 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 years ended Dec. 31, 2010, and 2009.

VAR *(a)*	**2010**			
(in millions)	**Average**	**Minimum**	**Maximum**	**Dec. 31**
Interest rate	**$ 5.9**	**$ 1.2**	**$10.9**	**$ 4.3**
Foreign exchange	**2.7**	**0.7**	**5.0**	**0.7**
Equity	**3.6**	**1.3**	**7.6**	**2.1**
Credit	**0.6**	**0.2**	**1.3**	**0.2**
Diversification	**(5.3)**	**N/M**	**N/M**	**(3.4)**
Overall portfolio	**7.5**	**3.5**	**11.4**	**3.9**

VAR *(a)*	2009			
(in millions)	Average	Minimum	Maximum	Dec. 31
Interest rate	$ 5.8	$ 2.8	$11.7	$ 6.9
Foreign exchange	2.4	0.8	5.6	1.0
Equity	2.7	1.3	8.1	1.6
Credit	2.9	0.7	7.5	0.7
Diversification	(6.1)	N/M	N/M	(2.1)
Overall portfolio	7.7	3.9	13.5	8.1

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

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

During 2010, interest rate risk generated 46% of average VAR, credit risk generated 5% of average VAR, equity risk generated 28% of average VAR, and foreign exchange risk accounted for 21% of average VAR. During 2010, our daily trading loss did not exceed our calculated VAR amount of the overall portfolio on any given day.

BNY Mellon monitors a volatility index of global currency using a basket of 30 major currencies. In 2010, the volatility of this index decreased approximately 18 basis points from 2009.

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 year.

Distribution of trading revenues (losses) *(a)*	Quarter ended				
(dollar amounts in millions)	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Revenue range:	Number of days				
Less than $(2.5)	1	-	1	2	**1**
$(2.5) - $0	5	3	2	3	**7**
$0 - $2.5	13	15	18	27	**15**
$2.5 - $5.0	22	22	21	23	**23**
More than $5.0	21	21	22	9	**17**

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

Foreign exchange and other trading

Under our mark-to-market methodology for derivative contracts, an initial "risk-neutral" valuation is performed on each position assuming time-discounting based on 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 Dec. 31, 2010, our over-the-counter ("OTC") derivative assets of $4.3 billion included a credit valuation adjustment ("CVA") deduction of $78 million, including $27 million related to the declining credit quality of CDO counterparties and Lehman. Our OTC derivative liabilities of $5.3 billion included debit valuation adjustments ("DVA") of $30 million related to our own credit spread. In 2010, we charged-off a $38 million realized loss against the CVA reserves. The CVA, net of the charge-off, decreased foreign exchange and other trading revenue $2 million in 2010. Adjustments to our own credit spread, the DVA, did not impact foreign exchange and other trading revenue in 2010.

At Dec. 31, 2009, our OTC derivative assets of $4.8 billion included a CVA deduction of $114 million, including $61 million related to the declining credit quality of CDO counterparties. Our OTC derivative liabilities of $4.6 billion included $30 million of DVA related to our own credit spread.

Adjustments to the CVA and DVA decreased foreign exchange and other trading activities revenue by $38 million in 2009. Adjustments to our own credit spread decreased foreign exchange and other trading activities revenue by $15 million in 2009.

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 and significant changes in ratings classifications for which our foreign exchange and other trading activity could result in increased risk for us.

Foreign exchange and other trading counterparty risk rating profile *(a)*	Quarter ended				
	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Rating:					
AAA to AA-	56%	54%	52%	47%	**52%**
A+ to A-	22	23	19	18	**18**
BBB+ to BBB-	15	16	22	24	**21**
Noninvestment grade (BB+ and lower)	7	7	7	11	**9**
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 interest revenue	**Dec. 31, 2010**	
(dollar amounts in millions)	**$**	**%**
up 200 bps vs. baseline	**$143**	**4.9%**
up 100 bps vs. baseline	**127**	**4.4**
Long-term up 50 bps, short-term unchanged *(a)*	**110**	**3.8**
Long-term down 50 bps, short-term unchanged *(a)*	**(98)**	**(3.3)**

(a) *Long-term is equal to or greater than one year.*

The baseline scenario's Fed Funds rate in the Dec. 31, 2010, analysis was 0.25%. The 100 basis point ramp scenario assumes short-term rates change 25 basis points in each of the next four quarters and the 200 basis point ramp scenario assumes a 50 basis point per quarter change. The up 200 basis point and the up 100 basis point Dec. 31, 2010, scenarios assume 10-year rates rising 92 and 63 basis points, respectively.

We also project future cash flows from our assets and liabilities over a long-term horizon and then discount these cash flows using instantaneous parallel shocks to prevailing interest rates. This measure reflects the structural balance sheet interest rate sensitivity by discounting all future cash flows. The aggregation of these discounted cash flows is the Economic Value of Equity ("EVE"). The following table shows how the EVE would change in response to changes in interest rates:

Estimated changes in EVE at Dec. 31, 2010	
Rate change:	
up 200 bps vs. baseline	**2.8%**
up 100 bps vs. baseline	**1.7**

These results do not reflect strategies that management could employ to limit the impact as interest rate expectations change.

The asymmetrical accounting treatment of the impact of a change in interest rates on our balance sheet may create a situation in which an increase in interest rates can adversely affect reported equity and regulatory capital, even though economically there may be no impact on our economic capital position. For example, an increase in rates will result in a decline in the value of our fixed income investment portfolio, which will be reflected through a reduction in other comprehensive income in our shareholders' equity, thereby affecting our tangible common equity ("TCE") ratios. Under current accounting rules, to the extent the fair value option provided in ASC 825 is not applied, there is no corresponding change on our fixed liabilities, even though economically these liabilities are more valuable as rates rise.

We project the impact of this change using the same interest rate shock assumptions described earlier and compare the projected mark-to-market on the investment securities portfolio at Dec. 31, 2010, under the higher rate environments versus a stable rate scenario. The table below shows the impact of a change in interest rates on the TCE ratio:

Estimated changes in the TCE ratio at Dec. 31, 2010	
(in basis points)	
up 200 bps vs. baseline	**(86)**
up 100 bps vs. baseline	**(41)**

These results do not reflect strategies that management could employ to limit the impact as interest rate expectations change.

To manage foreign exchange risk, we fund foreign currency-denominated assets with liability instruments denominated in the same currency. We utilize various foreign exchange contracts if a liability denominated in the same currency is not available or desired, and to minimize the earnings impact of translation gains or losses created by investments in foreign markets. The foreign exchange risk related to the interest rate spread on foreign currency-denominated asset/liability positions is managed as part of our trading activities. We use forward foreign exchange contracts to protect the value of our net investment in foreign operations. At Dec. 31, 2010, net investments in foreign operations totaled approximately $9.4 billion and were spread across 14 foreign currencies.

Business continuity

We are prepared for events that could damage our physical facilities, cause delay or disruptions to operational functions, including telecommunications networks, or impair our employees, clients, vendors and counterparties. Key elements of our business continuity strategies are extensive planning and testing, and diversity of business operations, data centers and telecommunications infrastructure.

We have established multiple geographically diverse locations for our funds transfer and broker-dealer services operational units, which provide redundant functionality to facilitate uninterrupted operations.

Our securities clearing, mutual fund accounting and custody, securities lending, master trust, Unit Investment Trust, corporate trust, stock transfer, item processing, wealth management and treasury units have common functionality in multiple sites designed to facilitate continuance of operations or rapid recovery. In addition, we have recovery positions for over 12,800 employees on a global basis of which over 8,000 are proprietary.

We continue to enhance geographic diversity for business operations by moving additional personnel to growth centers outside of existing major urban centers. We replicate 100% of our critical production computer data to multiple recovery data centers.

We have an active telecommunications diversity program. All major buildings and data centers have diverse telecommunications carriers. The data centers have multiple fiber optic rings and have been designed so that there is no single point of failure.

All major buildings have been designed with diverse telecommunications access and connect to at least two geographically dispersed connection points. We have an active program to audit circuits for route diversity and to test customer back-up connections.

In 2003, the Federal Reserve, OCC and SEC jointly published the Interagency Paper, "Sound Practices to Strengthen the Resilience of the U.S. Financial System" ("Sound Practices Paper"). The purpose of the document was to define the guidelines for the financial services industry and other interested parties regarding "best practices" related to business continuity planning. Under these guidelines, we are a key clearing and settlement organization required to meet a higher standard for business continuity.

We believe we have substantially met all of the requirements of the Sound Practices Paper. As a core clearing and settlement organization, we believe that we are at the forefront of the industry in improving business continuity practices.

We are committed to seeing that requirements for business continuity are met not just within our own facilities, but also within those of vendors and service providers whose operation is critical to our safety and soundness. To that end, we have a Service Provider Management Office whose function is to review new and existing service providers and vendors to see that they meet our standards for business continuity, as well as for information security, financial stability, and personnel practices, etc.

We have developed a comprehensive plan to prepare for the possibility of a flu pandemic, which anticipates significant reduced staffing levels and will provide for increased remote working by staff for one or more periods lasting several weeks.

Although we are committed to observing best practices as well as meeting regulatory requirements, geopolitical uncertainties and other external factors will continue to create risk that cannot always be identified and anticipated.

Due to BNY Mellon's robust business recovery systems and processes, we are not materially impacted by climate change, nor do we expect material impacts in the near term. We have and will continue to implement processes and capital projects to deal with the risks of the changing climate. The company has invested in the development of products and services that support the markets related to climate change.

Explanation of Non-GAAP financial measures

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

BNY Mellon has provided a measure of tangible book value per share, which it believes provides additional useful information as to the level of such assets in relation to shares of common stock outstanding. BNY Mellon has presented revenue measures which exclude the effect of net securities gains (losses), SILO/LILO charges and noncontrolling interests related to consolidated asset management funds; expense measures which exclude restructuring charges, an FDIC special assessment, support agreement charges, asset-based taxes, M&I expenses, special litigation reserves and amortization of intangible assets; and measures which utilize net income excluding tax items such as the benefit of tax settlements and discrete tax benefits related to a tax loss on mortgages. Return on equity measures and operating margin measures which exclude some or all of these items are also presented. BNY Mellon believes that these measures are useful to investors because they permit a focus on period to period comparisons which relate to the ability of BNY Mellon to enhance revenues and limit expenses in circumstances where such matters are within BNY Mellon's control. The excluded items in general relate to situations where accounting rules require certain ongoing charges as a result of prior transactions, or where valuation or other accounting/regulatory requirements require charges unrelated to operational initiatives. M&I expenses primarily relate to the merger with Mellon Financial Corporation in 2007 and the Acquisitions in 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 that the exclusion of M&I expenses provides investors with a focus on BNY Mellon's business as it would appear on a consolidated going-forward basis, after such M&I expenses have ceased, typically after approximately three years. Future periods will not reflect such M&I expenses, and thus may be more easily compared to our current results if M&I expenses are excluded. With regards to the exclusion of net securities gains (losses), BNY Mellon's primary businesses are Asset and Wealth Management and Institutional Services. The management of these businesses is evaluated on the basis of the ability of these businesses to generate fee and net interest revenue and to control expenses, and not on the results of BNY Mellon's investment securities portfolio. The investment securities portfolio is managed within the Other group of businesses. The primary objective of the investment securities portfolio is to generate net interest revenue from the liquidity generated by BNY Mellon's processing businesses. BNY Mellon does not generally originate or trade the securities in the investment securities portfolio. With regards to higher yields related to the restructured investment securities portfolio, client deposits serve as the primary funding source for our investment securities portfolio and we typically allocate all interest revenue to the businesses generating the deposits. Accordingly, the higher yield related to the restructured investment securities portfolio has been included in the results of our businesses. The SILO/LILO charges relate to a one-time settlement with the IRS of tax structured lease transactions in 2008. BNY Mellon believes that excluding the SILO/LILO charges from net interest revenue provides investors with a clearer impact of the net interest margin generated on our interest-earning assets. Restructuring charges relate to migrating positions to global growth centers and the elimination of certain positions. Excluding the discrete tax benefits related to a tax loss on mortgages and the benefit of tax settlements permits investors to calculate the tax impact of BNY Mellon's primary businesses.

The presentation of financial measures excluding special litigation reserves provides investors with the ability to view performance metrics on the basis that management views results. The presentation of income of consolidated asset management funds, net of noncontrolling interests related to the consolidation of certain asset management funds, permits investors to view revenue on a basis consistent with prior periods. BNY Mellon believes that these presentations, as a supplement to GAAP information, gives investors a clearer picture of the results of its primary businesses.

In this Annual Report, certain amounts are presented on an FTE basis. We believe that this presentation provides comparability of amounts arising from both taxable and tax-exempt sources, and is consistent with industry practice. The adjustment to an FTE basis has no impact on net income.

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

Reconciliation of income (loss) from continuing operations before income taxes – pre-tax operating margin *(dollars in millions)*	**2010**	2009	2008	2007 *(a)*	2006 *(b)*
Income (loss) from continuing operations before income taxes – GAAP	**$ 3,694**	$ (2,208)	$ 1,946	$ 3,215	$2,183
Less: Net securities gains (losses)	**27**	(5,369)	(1,628)	(201)	2
Noncontrolling interests of consolidated asset management funds	**59**	-	-	-	-
Add: SILO/LILO charges	**-**	-	489	-	-
Support agreement charges	**N/A**	N/A	894	3	-
FDIC special assessment	**-**	61	-	-	-
M&I expenses	**139**	233	483	404	106
Restructuring charges	**28**	150	181	-	-
Asset-based taxes	**-**	20	-	-	-
Special litigation reserves	**164**	N/A	N/A	N/A	N/A
Amortization of intangible assets	**421**	426	473	314	76
Income (loss) from continuing operations before income taxes excluding net securities gains (losses), noncontrolling interests of consolidated asset management funds, SILO/LILO charges, support agreement charges, FDIC special assessment, M&I expenses, restructuring charges, asset-based taxes, special litigation reserves and amortization of intangible assets – Non-GAAP	**$ 4,360**	$ 4,051	$ 6,094	$ 4,137	$2,363
Fee and other revenue – GAAP	**$10,724**	$ 4,739	$10,714	$ 9,053	$5,339
Income of consolidated asset management funds – GAAP	**226**	-	-	-	-
Net interest revenue – GAAP	**2,925**	2,915	2,859	2,245	1,499
Total revenue – GAAP	**13,875**	7,654	13,573	11,298	6,838
Less: Net securities gains (losses)	**27**	(5,369)	(1,628)	(201)	2
Noncontrolling interests of consolidated asset management funds	**59**	-	-	-	-
Add: SILO/LILO charges	**-**	-	489	-	-
Total revenue excluding net securities gains (losses), noncontrolling interests of consolidated asset management funds and SILO/LILO charges – Non-GAAP	**$13,789**	$13,023	$15,690	$11,499	$6,836
Pre-tax operating margin *(c)*	**27%**	N/M	14%	28%	32%
Pre-tax operating margin, excluding net securities gains (losses), noncontrolling interests of consolidated asset management funds, SILO/LILO charges, support agreement charges, FDIC special assessment, M&I expenses, restructuring charges, asset-based taxes, special litigation reserves and amortization of intangible assets – Non-GAAP *(c)*	**32%**	31%	39%	36%	35%

(a) Results for 2007 include six months of BNY Mellon and six months of legacy The Bank of New York Company, Inc.
(b) Results for 2006 include legacy The Bank of New York Company, Inc. only.
(c) Income (loss) before taxes divided by total revenue.

Reconciliation of fee revenue as a percentage of total revenue *(dollars in millions)*	**2010**	2009	2008	2007 *(a)*	2006 *(b)*
Fee and other revenue – GAAP	**$10,724**	$ 4,739	$10,714	$ 9,053	$5,339
Less: Net securities gains (losses)	**27**	(5,369)	(1,628)	(201)	2
Total fee revenue – GAAP	**$10,697**	$10,108	$12,342	$ 9,254	$5,337
Fee and other revenue – GAAP	**$10,724**	$ 4,739	$10,714	$ 9,053	$5,339
Income of consolidated asset management funds – GAAP	**226**	-	-	-	-
Net interest revenue – GAAP	**2,925**	2,915	2,859	2,245	1,499
Total revenue – GAAP	**13,875**	7,654	13,573	11,298	6,838
Less: Net securities gains (losses)	**27**	(5,369)	(1,628)	(201)	2
Noncontrolling interests of consolidated asset management funds	**59**	-	-	-	-
Add: SILO/LILO charges	**-**	-	489	-	-
Total revenue excluding net securities gains (losses), noncontrolling interest of consolidated asset management funds and SILO/LILO charges – Non-GAAP	**$13,789**	$13,023	$15,690	$11,499	$6,836
Fee revenue as a percentage of total revenue excluding securities gains (loss), noncontrolling interests of consolidated asset management funds and SILO/LILO charges	**78%**	78%	79%	80%	78%

(a) Results for 2007 include six months of BNY Mellon and six months of legacy The Bank of New York Company, Inc.
(b) Results for 2006 include legacy The Bank of New York Company, Inc. only.

Asset servicing revenue *(in millions)*	**2010**	2009	2008
Asset servicing revenue	**$ 3,089**	$ 2,573	$3,370
Less: Securities lending fee revenue	**150**	259	789
Asset servicing revenue excluding securities lending fee revenue	**$ 2,939**	$ 2,314	$2,581

Asset and wealth management fee revenue *(dollars in millions)*	**2010**	2009	2008	**2010 vs. 2009**
Asset and wealth management fee revenue	**$ 2,868**	$ 2,677	$ 3,218	**7%**
Less: Performance fees	**121**	93	83	
Add: Revenue from consolidated asset management funds, net of noncontrolling interests	**125**	-	-	
Asset and wealth management fee revenue excluding performance fees	**$ 2,872**	$ 2,584	$ 3,135	**11%**

Return on common equity and tangible common equity – continuing operations *(dollars in millions)*	**2010**	2009	2008	2007 *(a)*	2006 *(b)*
Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation before extraordinary loss	**$ 2,518**	$ (1,367)	$ 1,412	$ 2,219	$ 2,847
Less: Net income (loss) from discontinued operations	**(66)**	(270)	14	10	1,371
Net income (loss) from continuing operations applicable to common shareholders of The Bank of New York Mellon	**2,584**	(1,097)	1,398	2,209	1,476
Add: Amortization of intangible assets	**264**	265	292	194	50
Net income (loss) from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation before extraordinary loss excluding amortization of intangible assets – Non-GAAP	**2,848**	(832)	1,690	2,403	1,526
Less: Net securities gains (losses)	**17**	(3,360)	(983)	(119)	1
Add: SILO/LILO/tax settlements	**-**	-	410	-	-
Support agreement charges	**N/A**	N/A	533	2	-
FDIC special assessment	**-**	36	-	-	-
M&I expenses	**91**	144	288	238	72
Restructuring charges	**19**	94	107	-	-
Discrete tax benefits and the benefit of tax settlements	**-**	(267)	-	-	-
Special litigation reserves	**98**	N/A	N/A	N/A	N/A
Net income (loss) from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation before extraordinary loss excluding net securities gains (losses), SILO/LILO/tax settlements, support agreement charges, FDIC special assessment, M&I expenses, restructuring charges, discrete tax benefits and the benefit of tax settlements, special litigation reserves and amortization of intangible assets – Non-GAAP	**$ 3,039**	$ 2,535	$ 4,011	$ 2,762	$ 1,597
Average common shareholders' equity	**$31,100**	$27,198	$28,212	$20,234	$10,333
Less: Average goodwill	**17,029**	16,042	16,525	10,739	4,394
Average intangible assets	**5,664**	5,654	5,896	3,769	772
Add: Deferred tax liability – tax deductible goodwill	**816**	720	599	495	384
Deferred tax liability – non-tax deductible intangible assets	**1,625**	1,680	1,841	2,006	162
Average tangible common shareholders' equity – Non-GAAP	**$10,848**	$ 7,902	$ 8,231	$ 8,227	$ 5,713
Return on common equity before extraordinary loss – GAAP	**8.3%**	N/M	5.0%	10.9%	14.3%
Return on common equity before extraordinary loss excluding net securities gains (losses), SILO/LILO/tax settlements, support agreement charges, FDIC special assessment, M&I expenses, restructuring charges, discrete tax benefits and the benefit of tax settlements, special litigation reserves and amortization of intangible assets – Non-GAAP	**9.8%**	9.3%	14.2%	13.6%	15.5%
Return on tangible common equity before extraordinary loss – Non-GAAP	**26.3%**	N/M	20.5%	29.2%	26.7%
Return on tangible common equity before extraordinary loss excluding net securities gains (losses), SILO/LILO/tax settlements, support agreement charges, FDIC special assessment, M&I expenses, restructuring charges, discrete tax benefits and the benefit of tax settlements and special litigation reserves – Non-GAAP	**28.0%**	32.1%	48.7%	33.6%	28.0%

(a) Results for 2007 include six months of BNY Mellon and six months of legacy The Bank of New York Company, Inc.
(b) Results for 2006 include legacy The Bank of New York Company, Inc. only.

Equity to assets and book value per common share *(dollars in millions unless otherwise noted)*	Dec. 31, **2010**	2009	2008	2007	2006 *(a)*
BNY Mellon shareholders' equity at period end – GAAP	**$ 32,354**	$ 28,977	$ 25,264	$ 29,403	$ 11,429
Less: Goodwill	**18,042**	16,249	15,898	16,331	5,008
Intangible assets	**5,696**	5,588	5,856	6,402	1,453
Add: Deferred tax liability – tax deductible goodwill	**816**	720	599	495	384
Deferred tax liability – non-tax deductible intangible assets	**1,625**	1,680	1,841	2,006	162
Tangible BNY Mellon shareholders' equity at period end – Non-GAAP	**$ 11,057**	$ 9,540	$ 5,950	$ 9,171	$ 5,514
Total assets at period end – GAAP	**$ 247,259**	$ 212,224	$ 237,512	$ 197,656	$103,206
Less: Assets of consolidated asset management funds	**14,766**	-	-	-	-
Total assets of operations – Non-GAAP	**232,493**	212,224	237,512	197,656	103,206
Less: Goodwill	**18,042**	16,249	15,898	16,331	5,008
Intangible assets	**5,696**	5,588	5,856	6,402	1,453
Cash on deposit with the Federal Reserve and other central banks *(b)*	**18,566**	7,375	53,278	80	-
U.S. Government-backed commercial paper *(b)*	**-**	-	5,629	-	-
Tangible total assets at period end – Non-GAAP	**$ 190,189**	$ 183,012	$ 156,851	$ 174,843	$ 96,745
BNY Mellon shareholders' equity to total assets – GAAP	**13.1%**	13.7%	10.6%	14.9%	11.1%
Tangible BNY Mellon shareholders' equity to tangible assets of operations – Non-GAAP	**5.8%**	5.2%	3.8%	5.2%	5.7%
Period end common shares outstanding *(in thousands)*	**1,241,530**	1,207,835	1,148,467	1,145,983	713,079
Book value per common share	**$ 26.06**	$ 23.99	$ 22.00	$ 25.66	$ 16.03
Tangible book value per common share – Non-GAAP	**$ 8.91**	$ 7.90	$ 5.18	$ 8.00	$ 7.73

(a) The 2006 share-related data includes legacy The Bank of New York Company, Inc. only and is presented in post merger share count terms.

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

Calculation of the Tier 1 common equity to risk-weighted assets ratio *(a)* *(dollars in millions)*	Dec. 31, **2010**	2009	2008	2007	2006 *(b)*
Total Tier 1 capital	**$ 13,597**	$ 12,883	$ 15,402	$ 11,259	$ 6,350
Less: Trust preferred securities	**1,676**	1,686	1,654	2,030	1,150
Series B preferred stock	**-**	-	2,786	-	-
Total Tier 1 common equity	**$ 11,921**	$ 11,197	$ 10,962	$ 9,229	$ 5,200
Total risk-weighted assets	**$ 101,407**	$ 106,328	$ 116,713	$ 120,866	$ 77,567
Tier 1 common equity to risk-weighted assets ratio	**11.8%**	10.5%	9.4%	7.6%	6.7%

(a) On a regulatory basis using Tier 1 capital as determined under Basel 1 guidelines. Includes discontinued operations.

(b) Legacy The Bank of New York Company, Inc. only.

Rate/volume analysis

Rate/Volume analysis *(a)*	**2010 over (under) 2009**			2009 over (under) 2008		
	Due to change in			Due to change in		
(dollar amounts in millions, presented on an FTE basis)	**Average balance**	**Average rate**	**Net change**	Average balance	Average rate	Net change
Interest revenue						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign banks)	**$ 9**	**$(138)**	**$(129)**	$ 295	$(1,365)	$(1,070)
Interest-bearing deposits with the Federal Reserve and other central banks	**8**	**(2)**	**6**	29	(13)	16
Other short-term investments – U.S. government-backed commercial paper	**(4)**	**(5)**	**(9)**	(60)	(2)	(62)
Federal funds sold and securities under resale agreements	**17**	**16**	**33**	(55)	(63)	(118)
Margin loans	**23**	**(4)**	**19**	(31)	(83)	(114)
Non-margin loans:						
Domestic offices:						
Consumer	**3**	**(34)**	**(31)**	(32)	(13)	(45)
Commercial	**6**	**(12)**	**(6)**	(55)	260	205
Foreign offices	**(38)**	**(61)**	**(99)**	(89)	(224)	(313)
Total non-margin loans	**(29)**	**(107)**	**(136)**	(176)	23	(153)
Securities:						
U.S. government obligations	**70**	**(1)**	**69**	44	(12)	32
U.S. government agency obligations	**143**	**(61)**	**82**	201	(88)	113
State and political subdivisions	**(3)**	**(3)**	**(6)**	(5)	(3)	(8)
Other securities:						
Domestic offices	**(281)**	**430**	**149**	(132)	(285)	(417)
Foreign offices	**71**	**(142)**	**(71)**	111	(330)	(219)
Total other securities	**(210)**	**288**	**78**	(21)	(615)	(636)
Trading securities:						
Domestic offices	**16**	**5**	**21**	8	(24)	(16)
Foreign offices	**-**	**(1)**	**(1)**	(2)	(2)	(4)
Total trading securities	**16**	**4**	**20**	6	(26)	(20)
Total securities	**16**	**227**	**243**	225	(744)	(519)
Total interest revenue	**$ 40**	**$ (13)**	**$ 27**	$ 227	$(2,247)	$(2,020)
Interest expense						
Interest-bearing deposits						
Domestic offices:						
Money market rate accounts	**$ 7**	**$ 1**	**$ 8**	$ 34	$ (150)	$ (116)
Savings	**2**	**(3)**	**(1)**	2	(9)	(7)
Certificates of deposits of $100,000 & over	**(4)**	**(4)**	**(8)**	(21)	(29)	(50)
Other time deposits	**4**	**(11)**	**(7)**	(22)	(79)	(101)
Total domestic	**9**	**(17)**	**(8)**	(7)	(267)	(274)
Foreign offices:						
Banks	**1**	**4**	**5**	(69)	(102)	(171)
Government and official institutions	**-**	**-**	**-**	(7)	(17)	(24)
Other	**(4)**	**30**	**26**	204	(1,329)	(1,125)
Total foreign	**(3)**	**34**	**31**	128	(1,448)	(1,320)
Total interest-bearing deposits	**6**	**17**	**23**	121	(1,715)	(1,594)
Federal funds purchased and securities sold under repurchase agreements	**1**	**42**	**43**	(14)	(32)	(46)
Trading liabilities	**3**	**7**	**10**	6	1	7
Other borrowed funds:						
Domestic offices	**12**	**3**	**15**	(22)	(9)	(31)
Foreign offices	**1**	**(3)**	**(2)**	(8)	(16)	(24)
Total other borrowed funds	**13**	**-**	**13**	(30)	(25)	(55)
Borrowings from Federal Reserve related to asset-backed commercial paper	**(3)**	**(4)**	**(7)**	(46)	-	(46)
Payables to customers and broker-dealers	**1**	**(1)**	**-**	(3)	(60)	(63)
Long-term debt	**(5)**	**(61)**	**(66)**	21	(297)	(276)
Total interest expense	**$ 16**	**$ -**	**$ 16**	$ 55	$(2,128)	$(2,073)
Changes in net interest revenue	**$ 24**	**$ (13)**	**$ 11**	$ 172	$ (119)	$ 53

(a) Changes which are solely due to balance changes or rate changes are allocated to such categories on the basis of the respective percentage changes in average balances and average rates. Changes in interest revenue or interest expense arising from the combination of rate and volume variances are allocated proportionately to rate and volume based on their relative absolute magnitudes.

ASU 2010-29—Disclosure of Supplementary Pro Forma Information for Business Combinations

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This ASU specifies that if a public entity presents comparative financial statements, the entity would disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The ASU was effective prospectively for business combinations consummated on or after Jan. 1, 2011.

ASU 2011-01—Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20

In January 2011, the FASB issued ASU 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." This ASU temporarily delays the effective date of the disclosures about troubled debt restructurings in Update 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

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

In May 2010, the FASB issued Proposed ASU, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities." Under this proposed ASU, most financial instruments would be measured at fair value in the balance sheet. In January 2011, the FASB determined preliminarily not to require certain financial assets to be measured at fair value on the balance sheet. The decision is subject to change until a final financial instruments standard is issued, which is expected later in 2011.

Measurement of a financial instrument would be determined based on its characteristics and an entity's business strategy and would fall into one of the following three classifications:

- Fair value—Net income—encompasses financial assets used in an entity's trading or held-for-sale activities. Changes in fair value would be recognized in net income.
- Fair value—Other comprehensive income—includes financial assets held primarily for investing activities, including those used to manage interest rate or liquidity risk. Changes in fair value would be recognized in other comprehensive income.
- Amortized cost—includes financial assets related to the advancement of funds (through a lending or customer-financing activity) that are managed with the intent to collect those cash flows (including interest and fees).

The Board tentatively decided that the business strategy should be determined by the business activities that an entity uses in acquiring and managing financial assets.

Supplementary Document—Impairment

On Jan. 31, 2011, the FASB issued a Supplementary Document, "Impairment". The Supplementary Document proposes to replace the incurred loss impairment models under U.S. GAAP with an expected loss impairment model. The document focuses on when and how credit impairment should be recognized. The proposal is limited to open portfolios of assets such as portfolios that are constantly changing, through originations, purchases, transfers, write-offs, sales and repayments. The proposal in the Supplementary Document would apply to loans and debt instruments under U.S. GAAP that are managed on an "open" portfolio basis provided they are not measured at fair value with changes in fair value recognized in net income. Comments on this proposal are due on April 1, 2011.

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

In June 2010, the FASB issued Proposed ASU, "Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This proposed ASU would change the wording used to describe many of the principles and requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements, and would change how the fair value measurement guidance in ASC 820 is applied. This proposed ASU would also require several new disclosures: (a) measurement uncertainty disclosures, (b) reasons if an entity's use of an asset is different from its highest and best use, and (c) fair value hierarchy disclosures for financial instruments not measured at fair value. Comments on this proposed ASU were due on Sept. 7, 2010. The effective date will be determined after the FASB considers the feedback on this proposed ASU.

Proposed ASU—Revenue from Contracts with Customers

In June 2010, the FASB issued Proposed ASU, "Revenue from Contracts with Customers." This proposed ASU is the result of a joint project of the FASB and IASB to clarify the principles for recognizing revenue and develop a common standard for U.S. GAAP and IFRS. This proposed ASU would establish a broad principle that would require an entity to identify the contract with a customer, identify the separate performance obligations in the contract, determine the transaction price, allocate the transaction price to the separate performance obligations and recognize revenue when each separate performance obligation is satisfied. In February 2011, the FASB and 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. The FASB and IASB plan to issue a final standard in June 2011.

Proposed ASU—Disclosure of Certain Loss Contingencies

In July 2010, the FASB issued Proposed ASU, "Disclosure of Certain Loss Contingencies." This proposed ASU would require an entity to disclose qualitative and quantitative information about loss contingencies to enable financial statement users to understand the nature of loss contingencies, their potential magnitude and their potential timing (if known). Available information may be limited during the early stages of a loss contingency's life cycle and therefore, disclosure may be less extensive in early stages of a loss contingency. In subsequent reporting periods, disclosure may be more extensive as additional information about a potentially unfavorable outcome becomes available. Additionally, an entity may aggregate disclosures about similar contingencies so that the disclosures are understandable and not too detailed. An entity would also then disclose the basis for aggregation. On Oct. 27, 2010, the FASB announced that is has decided to rule out a 2010 effective date. The FASB did not project a new proposed effective date pending its redeliberations on the proposal.

FASB and IASB project on Leases

In August 2010, the FASB and IASB issued a joint Proposed ASU, "Leases." This proposed ASU would require that lessees and lessors apply a right of use model in accounting for all leases, including leases of right of use assets in subleases (other than leases of biological and intangible assets, leases to explore for or use natural resources and leases of some investment property). The model would require lessees to recognize an asset representing the right to use the underlying property over the estimated lease term (the right of use asset) and a liability to make future lease payments in their balance sheet. Lessees would no longer classify each lease as either operating or capital, and the model would fundamentally change the accounting and reporting of leases currently classified as operating leases and substantially increase both assets and liabilities of lessees. A lessor would recognize an asset representing its right to receive lease payments and, depending on its exposure to risks or benefits associated with the underlying asset, would either recognize a lease liability while continuing to recognize the underlying asset (performance obligation approach), or derecognize the rights in the underlying asset that it transfers to the lessee and continue to recognize a residual asset representing its rights to the underlying asset at the end of the lease term (derecognition approach). Comments on this proposed ASU were due on Dec. 15, 2010. The effective date will be determined after the FASB considers the feedback on this proposed ASU.

Proposed ASU—How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test

In October 2010, the FASB issued Proposed ASU, "How the Carrying Amount of a Reporting Unit Should Be Calculated When Performing Step 1 of the Goodwill Impairment Test." This proposed ASU would clarify that the equity premise is the only method an entity can use for purposes of calculating the carrying amount of a reporting unit. The equity premise reflects the net amount of all of the assets and liabilities assigned to the reporting unit(s) of a reporting entity. Additionally, this proposed ASU would modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity would be required to perform Step 2 of the goodwill impairment test if there are adverse qualitative factors that indicate that it is more likely than not that a goodwill impairment exists. The qualitative factors are consistent with existing guidance. Lastly, this proposed ASU does not allow any previously recognized goodwill impairment taken as a result of applying an alternative premise before adopting this proposed ASU to be reversed. Comments on this proposed ASU were due on Nov. 5, 2010. This proposed ASU would be effective for annual and interim periods beginning Jan. 1, 2011.

Proposed ASU—Clarifications to Accounting for Troubled Debt Restructurings by Creditors

In October 2010, the FASB issued Proposed ASU, "Clarifications to Accounting for Troubled Debt Restructurings by Creditors." This proposed ASU would provide clarifying guidance for creditors when determining whether they granted concessions and whether the debtor is experiencing financial difficulty. Comments on this proposed ASU were due on Dec. 13, 2010. The FASB has tentatively decided for purposes of measuring impairment of a receivable restructured in a troubled debt restructuring, this proposed ASU would be effective on a prospective basis for restructurings occurring on or after Jan. 1, 2011. Creditors would be precluded from using the borrower's effective rate test to assess whether a restructuring is troubled. Furthermore, the proposed ASU would specify that the absence of a market rate for a loan with risks similar to the restructured loan is an indicator of a troubled debt restructuring, but not a determinative factor, and that the assessment should consider all of the modified terms of the restructuring, including any additional collateral or guarantees. For purposes of identifying and disclosing troubled debt restructurings, this proposed ASU would be effective for interim and annual periods ending June 30, 2011.

Proposed ASU—Offsetting

In January 2011, the FASB issued Proposed ASU, "Offsetting". Under this proposal an entity would be required to offset a recognized financial asset and a recognized financial liability when it has an unconditional and legally enforceable right of setoff and intends either to settle the financial asset and financial liability on a net basis or to realize the financial asset and settle the financial liability simultaneously. An entity that fails to satisfy either criterion would be prohibited from offsetting the financial asset and the financial liability in the statement of financial position. This proposal would require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Comments on this proposed ASU are due on April 28, 2011.

Adoption of new accounting standards

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

Regulatory developments

Evolving regulatory environment

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). This new law broadly affects the financial services industry by establishing a framework for systemic risk oversight, creating a resolution authority for institutions determined to be systemically important, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and containing numerous other provisions aimed at strengthening the sound operation of the financial services sector. It will fundamentally change the system of oversight described under "Business—Supervision and Regulation" in Part I, Item 1 of our Annual Report on Form 10-K. Many aspects of the law are subject to further rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact to BNY Mellon or across the industry.

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

FDIC assessment base and rates changes

On Feb. 7, 2011 the FDIC approved a final rule on Assessments, Dividends, Assessment Base and Large Bank Pricing. The rule implements changes to the deposit insurance assessment system that mandates the Dodd-Frank Act to require the FDIC to amend the assessment base used for calculating deposit insurance assessments. Consistent with the Dodd-Frank Act, the rule defines the assessment base to be average consolidated total assets of the insured depository institution during the assessment period, minus average tangible equity and in certain cases, adjustments for custody and banker's banks.

The FDIC rule adjusts the assessment base for custodial banks in recognition of the fact that such banks need to hold liquid assets to facilitate the payments and processes associated with their custody and safekeeping accounts. The rule limits the custody bank assessment adjustment to 0% risk-weighted assets plus 50% of those assets with a Basel risk-weighting of 20%, up to the average amount of deposit transaction accounts on the custodial bank's balance sheet which can be directly linked to fiduciary or custody and safekeeping accounts.

The rule also adjusts the assessment rates to mitigate the impact of the expanded assessment base on the overall amount of assessment revenue. The base rate schedule, which includes adjustments for unsecured debt, depository institution debt and brokered deposits, also creates a separate category for large and highly complex institutions (this category would include both The Bank of New York Mellon and BNY Mellon, N.A.). The proposal provides a broad range of assessment rates (2.5-45 basis points) for large and highly complex institutions.

BNY Mellon expects the FDIC assessment rule to have a minimal impact in 2011.

FDIC Restoration Plan

On Oct. 19, 2010, the FDIC proposed a comprehensive, long-range plan for Deposit Insurance Fund management and adopted a Restoration Plan. The Restoration Plan will forego the uniform 3 basis point assessment rate increase previously scheduled to go in effect Jan. 1, 2011, and keep the current rate schedule in effect. Current assessment rates will remain in effect until the reserve ratio reaches 1.15%, which is expected to occur at the end of 2018. The Restoration Plan also increases the designated reserve ratio, pursuant to the requirements of the Dodd-Frank Act, to 1.35% by Sept. 30, 2020, rather than 1.15% by the end of 2016, and calls for the FDIC to pursue further rulemaking in 2011 regarding the statutory requirement that the FDIC offset the effect on small institutions of this requirement. The Restoration Plan is effective immediately.

Federal Reserve's assessment of comprehensive capital plans

On Nov. 17, 2010, the Federal Reserve issued Revised Temporary Addendum to SR letter 09-4. The letter described the process the Federal Reserve will follow to assess comprehensive capital plans of the 19 Supervisory Capital Assessment Program bank holding companies including any request to take capital actions such as increased dividends or stock buybacks. The comprehensive capital plans, which were prepared using Basel I capital guidelines, included bank developed baseline and stress projections as well as a supervisory stress projection using adverse macroeconomic assumptions provided by the Federal Reserve.

The Company also provided the Federal Reserve with projections covering the time period it will take us to fully comply with Basel III capital guidelines, including the 7% Tier 1 common, 8.5% Tier 1 and 3% leverage ratios. Certain templates were submitted to the Federal Reserve on Dec. 22, 2010, and the capital plan was filed by Jan. 7, 2011. The Federal Reserve is expected to provide a response to first quarter capital actions, such as a dividend increase and share repurchases, no later than March 21, 2011, and feedback on the comprehensive capital plan by April 30, 2011.

Establishment of a Risk-Based Capital Floor

In December 2010, the regulatory agencies issued a notice of proposed rulemaking ("NPR") which would amend the advanced risk-based capital adequacy standards to be consistent with provisions of the Dodd-Frank Act and also amend the general risk-based capital rules to provide additional flexibility and to create capital requirements for certain assets not held by depository institutions. The NPR would revise the advanced approaches rule by replacing the transitional floors set forth by the Basel Committee with a permanent risk-based capital floor.

The Dodd-Frank Act states that applicable agencies will establish minimum risk-based capital requirements that shall not be less than the "generally applicable" capital requirements, which shall serve as a floor for any capital requirements the agencies may require. The proposed permanent floor will equal the Tier 1 and total risk-based capital requirements under the current generally applicable risk-based capital rules. Each quarter the minimum Tier 1 capital ratio and the total risk-based capital ratio must be calculated under both the general risk-based capital rules and the advanced approaches risk-based capital rules and then the lower of both the Tier 1 and total risk-based capital ratios must be used.

Comments on the NPR must be received by Feb. 28, 2011. This NPR is not expected to have a significant impact on banking organizations.

FDIC's Executive Compensation Proposal

The Dodd-Frank Act requires federal regulators to prescribe regulations or guidelines regarding incentive-based compensation practices at certain financial institutions. On Feb. 7, 2011, the FDIC issued an interagency NPR which, among other things, would require certain executive officers of covered financial institutions with total consolidated assets of $50 billion or more, such as ours, to defer at least 50% of their annual incentive-based compensation for a minimum of three years. The NPR will be published for a 45-day comment period following approval by all of the other agencies involved in the rulemaking, including the Federal Reserve and the SEC.

Capital requirements

The U.S. federal bank regulatory agencies' risk-based capital guidelines are based upon the 1988 Capital Accord of the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee issued in June 2004 and updated in November 2005 a revised framework for capital adequacy commonly known Basel II that sets capital requirements for operational risk and refines the existing capital requirements for credit risk. In the United States, regulators are mandating the adoption of Basel II for "core" banks. BNY Mellon and its depository institution subsidiaries are "core" banks. The only approach available to "core" banks is the Advanced Internal Ratings Based ("A-IRB") approach for credit risk and the Advanced Measurement Approach ("AMA") for operational risk. In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Additional information on Basel II and Basel III is presented below.

Basel II

In the U.S., Basel II became effective on April 1, 2008. Under the final rule, 2009 was the first year for a bank to begin its first of three transitional floor periods during which banks subject to the final rule calculate their capital requirements under both the old guidelines and new guidelines. As previously mentioned, the regulatory agencies have proposed to eliminate the transitional floor periods under Basel II.

Beginning Jan. 1, 2008 we implemented the Basel II Standardized Approach in the United Kingdom, Belgium and Luxembourg. In the U.S., BNY Mellon began the Basel II parallel run in the second quarter of 2010. Our capital models are currently with the Federal Reserve for their approval. Under Basel II guidelines, our risk-weighted assets for credit risk exposures are expected to decline. However, we expect the Basel II requirement that operational risk be included in risk-weighted assets will more than offset the decline in credit exposure. Under Basel I, securitizations that fall below investment grade are included in risk-weighted assets. Under Basel II, securitizations that fall below investment grade are deducted 50% from Tier 1 and 50% from total capital.

Based on our current estimates for Basel II at Dec. 31, 2010, our Tier 1 and Total capital ratios would have exceeded well-capitalized guidelines.

Basel III

Under Basel III standards, when fully phased in on Jan. 1, 2019, banking institutions will be required to satisfy three risk-based capital ratios:

- A Tier 1 common equity ratio of at least 7.0%, 4.5% attributable to a minimum Tier 1 common equity ratio and 2.5% attributable to a "capital conservation buffer";
- A Tier 1 capital ratio of at least 6.0%, exclusive of the capital conservation buffer (8.5% upon full implementation of the capital conservation buffer); and
- A total capital ratio of at least 8.0%, exclusive of the capital conservation buffer (10.5% upon full implementation of the capital conservation buffer).

Basel III also provides for a "countercyclical capital buffer," generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a Tier 1 capital add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a Tier 1 common equity ratio above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The phase-in of the new rules is to commence on Jan. 1, 2013. On that date, banking institutions will be required to meet the following minimum capital ratios:

- 3.5% Tier 1 common equity to risk-weighted assets;
- 4.5% Tier 1 capital to risk-weighted assets; and
- 8.0% Total capital to risk-weighted assets.

The phase-in of the capital conservation buffer will commence on Jan. 1, 2016, and the rules will be fully phased-in by Jan. 1, 2019.

For systemically important banks, the Federal Reserve may increase the capital buffer. The purpose of these new capital requirements is to ensure financial institutions are better capitalized to withstand periods of unfavorable financial and economic conditions. These capital rules are subject to interpretation and implementation by U.S. regulatory authorities.

Under Basel III, certain items, to the extent they exceed 10% of Tier 1 capital individually, or 15% of Tier 1 capital in the aggregate, would be deducted from our capital. These items include:

- Deferred tax assets that arise from timing differences; and
- Significant investments in unconsolidated financial institutions.

At Dec. 31, 2010, BNY Mellon did not exceed the 15% threshold, but we exceeded the 10% threshold for significant investment in unconsolidated financial institutions by approximately $500 million.

Also, pension assets recorded on the balance sheet are a deduction from capital, and Basel III does not add back to capital the adjustment to other comprehensive income that Basel I and Basel II make for pension liabilities and available-for-sale-securities.

Similar to Basel II, the Basel III proposal also incorporates the risk-weighted asset impact of operational risk, which will be partially offset by a decline in credit exposure.

Additionally, Basel III changes the treatment of securitizations that fall below investment grade. Under Basel II guidelines, securitizations that fall below investment grade are deducted equally from Tier I and total capital. However, under Basel III, banking institutions will be required to apply a 1,250% risk weight to these securitizations and include them as a component of risk-weighted assets.

Our fee-based model enables us to maintain a relatively low risk asset mix, primarily composed of high-quality securities, central bank deposits, liquid placements and predominantly investment grade loans. As a result of our asset mix, we have the flexibility to manage to a lower level of risk-weighted assets over time.

Given that the Basel III rules are subject to change, we cannot be certain of the impact the new regulations will have on our capital ratios. However, given our balance sheet strength and ongoing internal capital generation, we currently estimate that our Tier 1 common ratio, under Basel III guidelines, will be above 7% by Dec. 31, 2011. This estimated ratio includes an anticipated dividend increase and potential share repurchases in 2011, assuming Federal Reserve approval.

Leverage Requirement

Basel I and Basel II do not include a leverage requirement as an international standard. However, even though a leverage requirement has not been an international standard in the past, the U.S. banking agencies' capital regulations do require bank holding companies and banks to comply with a minimum leverage ratio requirement (Basel III will impose a leverage requirement as an international standard). The Federal Reserve Board's existing leverage ratio for bank holding companies is that the bank holding company maintain a ratio of Tier 1 capital to its total consolidated quarterly average assets (as defined for regulatory purposes), net of the loan loss reserve, goodwill and certain other intangible assets. The rules require a minimum leverage ratio of 3% for bank holding companies that either have the highest supervisory rating or have implemented the Federal Reserve Board's risk-adjusted measure for market risk. All other bank holding companies are required to maintain a minimum leverage ratio of 4%. The Federal Reserve Board has not advised us of any specific minimum leverage ratio applicable to us. At Dec. 31, 2010, our leverage ratio was 5.8%. Also, the rules indicate that the Federal Reserve Board will consider a "tangible Tier 1 leverage ratio" in evaluating proposals for expansion or new activities. The tangible Tier 1 leverage ratio is the ratio of a banking organization's Tier 1 capital (excluding intangibles) to total assets (excluding intangibles).

IFRS

International Financial Reporting Standards ("IFRS") are a set of standards and interpretations adopted by the International Accounting Standards Board. The

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

In November 2008, the SEC proposed a "roadmap" for phasing in mandatory IFRS filings by U.S. public companies. The roadmap is conditional on progress towards milestones that would demonstrate improvements in both the infrastructure of international standard setting and the preparation of the U.S. financial reporting community. The SEC will monitor progress of these milestones through the end of 2011, when the SEC plans to consider requiring U.S. public companies to adopt IFRS.

In February 2010, the SEC issued a statement confirming their position that they continue to believe that a single set of high-quality, globally accepted accounting standards would benefit U.S. investors. The SEC continues to support the dual goals of improving financial reporting in the U.S. and reducing country-by-country disparities in financial reporting. The SEC is developing a work plan to aid in its evaluation of the impact of IFRS on the U.S. securities market. If the SEC determines in 2011 to incorporate IFRS into the U.S. financial reporting system, and the work plan validates the four-to-five year timeline for implementation, the first time that U.S. companies would be required to report under IFRS would be no earlier than 2015.

While the SEC decides whether IFRS will be required to be used in the preparation of our consolidated financial statements, a number of countries have mandated the use of IFRS by BNY Mellon's subsidiaries in their statutory reports. Such countries include Belgium, Brazil, the Netherlands, Australia and Hong Kong. Other countries that have established an IFRS conversion time frame which will affect our statutory reporting include Canada (2011), South Korea (2011), Argentina (2012), the United Kingdom (2013), Ireland (2013) and Taiwan (2013).

Selected Quarterly Data (unaudited)

(dollar amounts in millions, except per share amounts)	Quarter ended 2010 Dec. 31	Sept. 30	June 30	March 31	2009 Dec. 31	Sept. 30	June 30	March 31
Consolidated income statement								
Total fee and other revenue	**$ 2,972**	**$ 2,668**	**$ 2,555**	**$ 2,529**	$ 2,577	$ (2,223)	$ 2,253	$ 2,132
Income of consolidated asset management funds	**59**	**37**	**65**	**65**	-	-	-	-
Net interest revenue	**720**	**718**	**722**	**765**	724	716	700	775
Total revenue	**3,751**	**3,423**	**3,342**	**3,359**	3,301	(1,507)	2,953	2,907
Provision for credit losses	**(22)**	**(22)**	**20**	**35**	65	147	61	59
Noninterest expense	**2,803**	**2,611**	**2,316**	**2,440**	2,564	2,311	2,379	2,276
Income (loss) from continuing operations before income taxes and extraordinary (loss)	**970**	**834**	**1,006**	**884**	672	(3,965)	513	572
Provision (benefit) for income taxes	**265**	**220**	**304**	**258**	(41)	(1,527)	12	161
Net income (loss) from continuing operations	**705**	**614**	**702**	**626**	713	(2,438)	501	411
Net loss from discontinued operations	**(11)**	**(3)**	**(10)**	**(42)**	(119)	(19)	(91)	(41)
Net income (loss)	**694**	**611**	**692**	**584**	594	(2,457)	410	370
Net (income) loss attributable to noncontrolling interests	**(15)**	**11**	**(34)**	**(25)**	(1)	(1)	2	(1)
Redemption charge and preferred dividends	**-**	**-**	**-**	**-**	-	-	(236)	(47)
Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation	**$ 679**	**$ 622**	**$ 658**	**$ 559**	$ 593	$ (2,458)	$ 176	$ 322
Basic earnings per share								
Continuing operations	**$ 0.55**	**$ 0.51**	**$ 0.55**	**$ 0.50**	$ 0.59	$ (2.04)	$ 0.23	$ 0.31
Discontinued operations	**(0.01)**	**-**	**(0.01)**	**(0.04)**	(0.10)	(0.02)	(0.08)	(0.04)
Net income (loss) applicable to common stock	**$ 0.55** *(a)*	**$ 0.51**	**$ 0.54**	**$ 0.46**	$ 0.49	$ (2.05) *(a)*	$ 0.15	$ 0.28 *(a)*
Diluted earnings per share								
Continuing operations	**$ 0.55**	**$ 0.51**	**$ 0.55**	**$ 0.49**	$ 0.59	$ (2.04)	$ 0.23	$ 0.31
Discontinued operations	**(0.01)**	**-**	**(0.01)**	**(0.03)**	(0.10)	(0.02)	(0.08)	(0.04)
Net income (loss) applicable to common stock	**$ 0.54**	**$ 0.51**	**$ 0.54**	**$ 0.46**	$ 0.49	$ (2.05) *(a)*	$ 0.15	$ 0.28 *(a)*
Average balances								
Interest-bearing deposits with banks	**$ 76,447**	**$ 70,244**	**$ 69,021**	**$ 67,929**	$ 66,897	$ 61,319	$ 63,255	$ 79,697
Securities	**65,370**	**57,993**	**54,030**	**55,352**	55,573	53,889	51,903	43,465
Loans	**37,529**	**36,769**	**36,664**	**34,214**	35,239	34,535	37,029	38,958
Total interest-earning assets	**187,597**	**172,759**	**167,119**	**163,429**	164,075	155,159	157,265	167,427
Assets of operations	**241,734**	**226,378**	**216,801**	**212,685**	214,205	205,786	208,533	220,119
Total assets	**256,409**	**240,325**	**228,841**	**225,415**	214,205	205,786	208,533	220,119
Deposits	**151,401**	**137,231**	**134,591**	**134,364**	133,395	128,552	131,748	145,034
Long-term debt	**16,624**	**16,798**	**16,462**	**16,808**	17,863	17,393	16,793	15,493
Total The Bank of New York Mellon Corporation shareholders' equity	**32,379**	**31,868**	**30,462**	**29,715**	28,843	28,144	26,566	25,189
Net interest margin (FTE) *(b)*	**1.54%**	**1.67%**	**1.74%**	**1.89%**	1.77%	1.85%	1.80%	1.87%
Annualized return on common equity *(b)*	**8.5%**	**7.8%**	**8.8%**	**8.2%**	9.8%	N/M	4.0%	5.8%
Pre-tax operating margin *(b)*	**26%**	**24%**	**30%**	**26%**	20%	N/M	17%	20%
Common stock data *(c)*								
Market price per share range:								
High	**$ 30.63**	**$ 26.95**	**$ 32.65**	**$ 31.46**	$ 29.94	$ 31.57	$ 33.62	$ 29.28
Low	**24.65**	**23.78**	**24.63**	**26.35**	25.80	26.11	23.75	15.44
Average	**27.49**	**25.44**	**29.01**	**29.20**	27.38	28.70	28.41	24.72
Period end close	**30.20**	**26.13**	**24.69**	**30.88**	27.97	28.99	29.31	28.25
Dividends per common share	**0.09**	**0.09**	**0.09**	**0.09**	0.09	0.09	0.09	0.24
Market capitalization *(d)*	**$ 37,494**	**$ 32,413**	**$ 29,975**	**$ 37,456**	$ 33,783	$ 34,911	$ 35,255	$ 32,585

(a) Amount does not foot due to rounding.
(b) Continuing operations basis.
(c) At Dec. 31, 2010, there were 26,125 shareholders registered with our stock transfer agent, compared with 27,727 at Dec. 31, 2009, and 29,428 at Dec. 31, 2008. In addition, there were approximately 44,051 of BNY Mellon's current and former employees at Dec. 31, 2010, who participate in BNY Mellon's 401(k) Retirement Savings Plans. All shares of BNY Mellon's common stock held by the Plans for its participants are registered in the names of The Bank of New York Mellon Corporation and Fidelity Management Trust Company, as trustee.
(d) At period end.

Forward-looking Statements

Some statements in this document are forward-looking. These include all statements about the future results of BNY Mellon; projected business growth; BNY Mellon's plans and strategies, product launches, areas of focus and long-term financial goals; expectations with respect to litigation costs, the impact of FSCS levies and our effective tax rate for 2011; statements on the planned conversion of our wealth management acquisition and revenue expected from this acquisition; expectations with respect to fees and assets, factors affecting the performance of our businesses: the impact of foreign exchange rates on our financial results and levels of assets under custody and management; descriptions of our critical accounting estimates, including management's estimates of probable losses; management's judgment in determining the size of unallocated allowances, the effect of credit ratings on allowances, estimates and cash flow models; judgments and analyses with respect to interest rate swaps, estimates of fair value, other-than-temporary impairment, goodwill and other intangibles, effects of delinquencies, default rates and loss severity assumptions on impairment losses; and long-term financial goals, objectives and strategies. In addition, these forward-looking statements relate to: our focus on increasing the percentage of revenue and income from outside the U.S.; expectations with respect to climate change, reasons why our businesses are compatible with our strategies and goals; growth in our businesses and assets; globalization of the investment process; deposit levels; expectations with respect to earnings per share; assumptions with respect to pension plans, including expenses and expected future returns; statements with respect to our intent to sell or hold securities; expectations with respect to our future exposure to private equity activities; statements on our credit strategies; goals with respect to our commercial loan portfolios; descriptions of our allowance for credit losses and loan losses; statements with respect to an increase in our dividends and our liquidity targets; the effect of a significant reduction in our securities servicing business on our access to deposits; the impact of a change in rating agencies' method of review on BNY Mellon's ratings; expectations with respect to capital, including anticipated repayment and call of outstanding securities; expectations with respect to our lines of credit; our goal of migrating to a predominantly investment grade credit portfolio; the effect of a change in risk-weighted assets or common equity on Tier 1 capital, the effect of a change in interest rates on our earnings and the effect of a change in the value of the S&P 500 Index; statements on our target double leverage ratios and our target capital ratios; expectations with respect to the well capitalized status of BNY Mellon and its bank subsidiaries; plans for and the effects of the implementation of Basel II and Basel III; compliance with the requirements of the Sound Practices Paper; statements regarding maintaining a strong balance sheet and a superior debt rating; descriptions of our risk management framework; statements regarding risks that we may face and the impact of such risks; qualifications of our economic capital; statements with respect to our risk management methodologies; descriptions of our earnings simulation models and assumptions; statements with respect to our business continuity plans; the effect of geopolitical factors and other external factors on risk; timing and impact of adoption of recent accounting pronouncements; the overall financial impact of Dodd-Frank; the FDIC's rule regarding adjustments to the assessment base and the impact of the assessment rule; timing of the Federal Reserve's response to capital actions and feedback on the capital plan; the FDIC's amendments to the risk-based capital standards and its impact on banking organizations; the FDIC's proposal regarding incentive-based compensation; the impact of Basel II guidelines on risk-weighted assets; the Federal Reserve's plan regarding capital buffer; the SEC's plans regarding IFRS; ability to realize benefit of deferred tax assets including carryovers; calculations of the fair value of our option grants; statements with respect to unrecognized tax benefits and compensation costs; our assessment of the adequacy of our accruals for tax liabilities; amount of dividends bank subsidiaries can pay without regulatory waiver; estimations of reasonable possible loss with respect to legal proceedings and the expected outcome and impact of judgments and settlements, if any, arising from pending or potential legal or regulatory proceedings, and matters relating to the information returns and withholding tax.

In this report, any other report, any press release or any written or oral statement that BNY Mellon or its executives may make, words, such as "estimate," "forecast," "project," "anticipate," "confident," "target," "expect," "intend," "seek," "believe," "plan," "goal," "could," "should," "may," "will," "strategy," "synergies," "opportunities," "trends" and words of similar meaning, signify forward-looking statements.

Factors that could cause BNY Mellon's results to differ materially from those described in the forward-looking statements, as well as other uncertainties affecting future results and the value of BNY Mellon's stock and factors which represent risk associated with the business and operations of BNY

Mellon, can be found in the "Risk Factors" section of BNY Mellon's Annual Report on Form 10-K for the year ended Dec. 31, 2010, and any subsequent reports filed with the SEC by BNY Mellon pursuant to the Exchange Act.

Forward-looking statements, including discussions and projections of future results of operations and discussions of future plans contained in the MD&A, are based on management's current expectations and assumptions that involve risk and uncertainties and that are subject to change based on various important factors (some of which are beyond BNY Mellon's control), including adverse changes in market conditions, and the timing of such changes, and the actions that management could take in response to these changes. Actual results may differ materially from those expressed or implied as a result of these risks and uncertainties and the risks and uncertainties described in the documents referred to in the preceding paragraph. The "Risk Factors" discussed in the Form 10-K could cause or contribute to such differences. Investors should consider all risks mentioned elsewhere in this document and in subsequent reports filed by BNY Mellon with the Commission pursuant to the Exchange Act, as well as other uncertainties affecting future results and the value of BNY Mellon's stock.

All forward-looking statements speak only as of the date on which such statements are made, and BNY Mellon undertakes no obligation to update any statement to reflect events or circumstances after the date on which such forward-looking statement is made or to reflect the occurrence of unanticipated events.

Accumulated Benefit Obligation (“ABO”)—The actuarial present value of benefits (vested and non-vested) attributed to employee services rendered.

Alt-A securities—A mortgage risk categorization that falls between prime and subprime. Borrowers behind these mortgages will typically have clean credit histories but the mortgage itself will generally have issues that increase its risk profile such as inadequate documentation of the borrower’s income or higher loan-to-value and debt-to-income ratios.

Alternative investments—Usually refers to investments in hedge funds, leveraged loans, subordinated and distressed debt, real estate and foreign currency overlay. Many hedge funds pursue strategies that are uncommon relative to mutual funds. Examples of alternative investment strategies are: long-short equity, event driven, statistical arbitrage, fixed income arbitrage, convertible arbitrage, short bias, global macro and equity market neutral.

APAC—Asia-Pacific region.

Assets Under Custody And Administration (“AUC”)—Assets beneficially owned by our clients or customers which we hold in various capacities for which various services are provided, such as custody, accounting, administration valuations and performance measurement. These assets are not on our balance sheet.

ASC—Accounting Standards Codification.

Assets Under Management (“AUM”)—Includes assets beneficially owned by our clients or customers which we hold in various capacities that are either actively or passively managed, as well as the value of hedges supporting customer liabilities. These assets and liabilities are not on our balance sheet.

bp—basis point.

Collateral management—A comprehensive program designed to simplify collateralization and expedite securities transfers for buyers and sellers. BNY Mellon acts as an independent collateral manager positioned between the buyer and seller to ensure proper collateralization throughout the term of the transaction. Services include verification of securities eligibility and maintenance of margin requirements.

Collateralized Debt Obligations (“CDOs”)—A type of asset-backed security and structured credit product constructed from a portfolio of fixed-income assets. CDOs are divided into different tranches and losses are applied in reverse order of seniority.

Collateralized loan obligation (“CLO”)—A debt security backed by a pool of commercial loans.

Collective trust fund—An investment fund formed from the pooling of investments by investors.

Credit derivatives—Contractual agreements that provide insurance against a credit event of one or more referenced credits. The nature of the credit event is established by the buyer and seller at the inception of the transaction. Such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a contingent payment by the seller (insurer) following a credit event.

Credit risk—The risk of loss due to borrower or counterparty default.

Currency swaps—An agreement to exchange stipulated amounts of one currency for another currency.

Depositary Receipts (“DR”)—A negotiable security that generally represents a non-U.S. company’s publicly traded equity. Although typically denominated in U.S. dollars, DRs can also be denominated in Euros. DRs are eligible to trade on all U.S. stock exchanges and many European stock exchanges. American Depositary Receipts (“ADR”) trade only in the U.S.

Derivative—A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, credit worthiness for credit default swaps or financial or commodity indices.

Discontinued operations—The operating results of a component of an entity, as defined by ASC 205, that are removed from continuing operations when that component has been disposed of or it is management’s intention to sell the component.

Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”)—Regulatory reform legislation signed into law on July 21, 2010. This new law broadly affects the financial services industry by establishing a framework for systemic risk oversight, creating a resolution authority, mandating higher capital and liquidity requirements, requiring banks to pay increased fees to regulatory agencies and containing numerous other provisions aimed at strengthening the sound operation of the financial services sector.

Double leverage—The situation that exists when a holding company's equity investments in wholly owned subsidiaries (including goodwill and intangibles) exceed its equity capital. Double leverage is created when a bank holding company issues debt and downstreams the proceeds to a subsidiary as an equity investment.

Economic Value of Equity ("EVE")—An aggregation of discounted future cash flows of assets and liabilities over a long-term horizon.

EMEA—Europe, the Middle East and Africa.

Exchange traded fund—Each share of an exchange traded fund tracks a basket of stocks in some index or benchmark, providing investors with a vehicle that closely parallels the performance of these benchmarks while allowing for intraday trading.

eXtensible Business Reporting Language ("XBRL")—a language for the electronic communication of business and financial data.

FASB—Financial Accounting Standards Board.

FDIC—Federal Deposit Issuance Corporation.

Foreign currency options—Similar to interest rate options except they are based on foreign exchange rates. Also, see interest rate options in this glossary.

Foreign currency swaps—An agreement to exchange stipulated amounts of one currency for another currency at one or more future dates.

Foreign exchange contracts—Contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.

Forward rate agreements—Contracts to exchange payments on a specified future date, based on a market change in interest rates from trade date to contract settlement date.

Fully Taxable Equivalent ("FTE")—Basis for comparison of yields on assets having ordinary taxability with assets for which special tax exemptions apply. The FTE adjustment reflects an increase in the interest yield or return on a tax-exempt asset to a level that would be comparable had the asset been fully taxable.

Generally Accepted Accounting Principles ("GAAP")—Accounting rules and conventions defining acceptable practices in preparing financial statements in the U.S. The FASB is the primary source of accounting rules.

Grantor Trust—A legal, passive entity through which pass-through securities are sold to investors.

Hedge fund—A fund, usually used by wealthy individuals and institutions, which is allowed to use diverse strategies that are unavailable to mutual funds, including selling short, leverage, program trading, swaps, arbitrage and derivatives. Hedge funds are exempt from many of the rules and regulations governing mutual funds, which allow them to accomplish aggressive investing goals. Legal requirements in many countries allow only certain sophisticated investors to participate in hedge funds.

Impairment—When an asset's market value is less than its carrying value.

Interest rate options, including caps and floors—Contracts to modify interest rate risk in exchange for the payment of a premium when the contract is initiated. As a writer of interest rate options, we receive a premium in exchange for bearing the risk of unfavorable changes in interest rates. Conversely, as a purchaser of an option, we pay a premium for the right, but not the obligation, to buy or sell a financial instrument or currency at predetermined terms in the future.

Interest rate sensitivity—The exposure of net interest income to interest rate movements.

Interest rate swaps—Contracts in which a series of interest rate flows in a single currency is exchanged over a prescribed period. Interest rate swaps are the most common type of derivative contract that we use in our asset/liability management activities. An example of a situation in which we would utilize an interest rate swap would be to convert our fixed-rate debt to a variable rate. By entering into a swap, the principal amount of a debt remains unchanged, but the interest stream changes.

Investment grade loans and commitments—Those where the customer has a Moody's long-term rating of Baa3 or better; and/or a Standard & Poor's long-term rating of BBB- or better; or if unrated, an equivalent rating using our internal risk ratings.

Joint venture—A company or entity owned and operated by a group of companies for a specific business purpose, no one of which has a majority interest.

Lease-In-Lease-Out ("LILO") transaction—A transaction in which a person or entity leases property from the owner for a specified time period and then leases the property back to that owner for a shorter time period. The obligations of the property owner as sublessee are usually secured by deposits, letters of credit, or marketable securities.

Leverage ratio—Tier 1 capital divided by leverage assets. Leverage assets are defined as quarterly average total assets, net of goodwill, intangibles and certain other items as required by the Federal Reserve.

Liquidity risk—The risk of being unable to fund our portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

Loans for purchasing or carrying securities—Loans primarily to brokers and dealers in securities.

Margin loans—A loan that is used to purchase shares of stock. The shares purchased are used as collateral for the loan.

Market risk—The potential loss in value of portfolios and financial instruments caused by movements in market variables, such as interest and foreign exchange rates, credit spreads, and equity and commodity prices.

Master netting agreement—An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.

Mortgage-Backed Security ("MBS")—An asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans.

N/A—Not applicable.

N/M—Not meaningful.

Net interest margin—The result of dividing net interest revenue by average interest-earning assets.

Non-investment grade loans and commitments—Those where the customer has a Moody's long-term rating below Baa3; and/or a Standard & Poor's long-term rating below BBB-; or if unrated, an equivalent rating using our internal risk ratings.

Operating leverage—The rate of increase in revenue to the rate of increase in expenses.

Operational risk—The risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

Performance fees—Fees received by an investment advisor based upon the fund's performance for the period relative to various predetermined benchmarks.

Prime securities—A classification of securities collateralized by loans to borrowers who have a high-value and/or a good credit history.

Private equity/venture capital—Investment in start-up companies or those in the early processes of developing products and services with perceived, long-term growth potential.

Pre-tax operating margin—Income before taxes for a period divided by total revenue for that period.

Projected Benefit Obligation ("PBO")—The actuarial present value of all benefits accrued on employee service rendered prior to the calculation date, including allowance for future salary increases if the pension benefit is based on future compensation levels.

Rating Agency—An independent agency that assesses the credit quality and likelihood of default of an issue or issuer and assigns a rating to that issue or issuer.

Real Estate Investment Trust ("REIT")— An investor-owned corporation, trust or association that sells shares to investors and invests in income-producing property.

Residential Mortgage-Backed Security ("RMBS")—An asset-backed security whose cash flows are backed by principal and interest payments of a set of residential mortgage loans.

Restructuring charges—Typically result from the consolidation and/or relocation of operations. Restructuring charges may be incurred in connection with a business combination, a change in an enterprise's strategic plan or a managerial response to declines in demand.

Return on assets—Income divided by average assets.

Return on common equity—Income divided by average common shareholders' equity.

Return on tangible common equity—Income, excluding amortization of intangible assets, divided by average tangible common shareholders' equity.

Sale-In-Lease-Out ("SILO") transaction—A transaction in which an entity sells its property to a corporation. The corporation simultaneously leases the property back to the entity for a shorter period of time. The SILO arrangement typically involves a service contract which guarantees a fixed return to the corporation.

Securities lending transaction—A fully collateralized transaction in which the owner of a security agrees to lend the security through an agent (The Bank of New York Mellon) to a borrower, usually a broker/dealer or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which generally matures in less than 90 days.

Subcustodian—A local provider (e.g., a bank) contracted to provide specific custodial related services in a selected country or geographic area. Services generally include holding foreign securities in safekeeping, facilitating settlements and reporting holdings to the custodian.

Subprime securities—A classification of securities collateralized by loans to borrowers who have a tarnished or limited credit history. Subprime securities carry increased credit risk and subsequently carry higher interest rates.

Tangible common shareholders' equity to tangible assets ratio ("TCE")—Common shareholders' equity less goodwill and intangible assets adjusted for deferred tax liabilities associated with tax deductible goodwill and non-tax deductible intangible assets divided by period end total assets less goodwill, intangible assets, deposits with the Federal Reserve and other central banks, and U.S. government-backed commercial paper.

Tangible common shareholders' equity—Common equity less goodwill and intangible assets adjusted for deferred tax liabilities associated with non-tax deductible intangible assets and tax deductible goodwill.

Tier 1 and total capital—Includes common shareholders' equity (excluding certain components of comprehensive income), Series B preferred stock, qualifying trust preferred securities, less goodwill and certain intangible assets adjusted for deferred tax liabilities associated with non-tax deductible intangible assets and tax deductible goodwill and a deduction for certain non-financial equity investments and disallowed deferred tax assets. Total capital includes Tier 1 capital, qualifying unrealized equity securities gains, qualifying subordinated debt and the allowance for credit losses.

Tier 1 common equity to risk-weighted assets ratio—Tier 1 capital excluding trust preferred securities and preferred stock divided by risk-weighted assets.

Unfunded commitments—Legally binding agreements to provide a defined level of financing until a specified future date.

Value-at-Risk ("VAR")—A measure of the dollar amount of potential loss at a specified confidence level from adverse market movements in an ordinary market environment.

Variable Interest Entity ("VIE")—An entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (3) has equity owners that do not have an obligation to absorb or the right to receive the entity's losses or return.

Report of Management on Internal Control Over Financial Reporting

Management of BNY Mellon is responsible for establishing and maintaining adequate internal control over financial reporting for BNY Mellon, as such term is defined in Rule 13a-15(f) under the Exchange Act.

BNY Mellon's management, including its principal executive officer and principal financial officer, has assessed the effectiveness of BNY Mellon's internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework. Based upon such assessment, management believes that, as of December 31, 2010, BNY Mellon's internal control over financial reporting is effective based upon those criteria.

KPMG LLP, the independent registered public accounting firm that audited BNY Mellon's 2010 financial statements included in this Annual Report under "Financial Statements and Notes," has issued a report with respect to the effectiveness of BNY Mellon's internal control over financial reporting. This report appears on page 87.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
The Bank of New York Mellon Corporation:

We have audited The Bank of New York Mellon Corporation's ("BNY Mellon") internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). BNY Mellon's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on BNY Mellon's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, BNY Mellon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of BNY Mellon as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 28, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

New York, New York
February 28, 2011

Consolidated Income Statement

	Year ended Dec. 31,		
(in millions)	**2010**	2009	2008
Fee and other revenue			
Securities servicing fees:			
Asset servicing	**$ 3,089**	$ 2,573	$ 3,370
Issuer services	**1,460**	1,463	1,685
Clearing services	**1,005**	962	1,065
Total securities servicing fees	**5,554**	4,998	6,120
Asset and wealth management fees	**2,868**	2,677	3,218
Foreign exchange and other trading revenue	**886**	1,036	1,462
Treasury services	**517**	519	514
Distribution and servicing	**210**	326	421
Financing-related fees	**195**	215	186
Investment income	**308**	226	207
Other	**159**	111	214
Total fee revenue	**10,697**	10,108	12,342
Net securities gains (losses), including other-than-temporary impairment	**(43)**	(5,552)	(1,628)
Noncredit-related (losses) on securities not expected to be sold (recognized in OCI)	**(70)**	(183)	-
Net securities gains (losses)	**27**	(5,369)	(1,628)
Total fee and other revenue	**10,724**	4,739	10,714
Operations of consolidated asset management funds			
Investment income	**663**	-	-
Interest of asset management fund note holders	**437**	-	-
Income of consolidated asset management funds	**226**	-	-
Net interest revenue			
Interest revenue	**3,533**	3,507	5,524
Interest expense	**608**	592	2,665
Net interest revenue	**2,925**	2,915	2,859
Provision for credit losses	**11**	332	104
Net interest revenue after provision for credit losses	**2,914**	2,583	2,755
Noninterest expense			
Staff	**5,215**	4,700	5,189
Professional, legal and other purchased services	**1,099**	1,017	1,021
Net occupancy	**588**	564	570
Software	**410**	367	331
Distribution and servicing	**377**	393	517
Furniture and equipment	**315**	309	323
Business development	**271**	214	278
Sub-custodian	**247**	203	255
Other	**1,060**	954	1,902
Subtotal	**9,582**	8,721	10,386
Amortization of intangible assets	**421**	426	473
Restructuring charges	**28**	150	181
Merger and integration expenses	**139**	233	483
Total noninterest expense	**10,170**	9,530	11,523
Income			
Income (loss) from continuing operations before income taxes	**3,694**	(2,208)	1,946
Provision (benefit) for income taxes	**1,047**	(1,395)	491
Net income (loss) from continuing operations	**2,647**	(813)	1,455
Discontinued operations:			
Income (loss) from discontinued operations	**(110)**	(421)	28
Provision (benefit) for income taxes	**(44)**	(151)	14
Net income (loss) from discontinued operations	**(66)**	(270)	14
Extraordinary (loss) on consolidation of commercial paper conduit, net of tax	**-**	-	(26)
Net income (loss)	**2,581**	(1,083)	1,443
Net (income) attributable to noncontrolling interests ($(59) for year ended Dec. 31, 2010 related to asset management funds)	**(63)**	(1)	(24)
Redemption charge and preferred dividends	**-**	(283)	(33)
Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation	**$ 2,518**	$ (1,367)	$ 1,386

Consolidated Income Statement (continued)

Earnings per common share applicable to the common shareholders of The Bank of New York Mellon Corporation *(a)* *(in dollars)*	Year ended Dec. 31, **2010**	2009	2008
Basic:			
Net income (loss) from continuing operations	**$ 2.11**	$ (0.93)	$ 1.21
Net income (loss) from discontinued operations	**(0.05)**	(0.23)	0.01
Extraordinary (loss), net of tax	**-**	-	(0.02)
Net income (loss) applicable to common stock	**$ 2.06**	$ (1.16)	$ 1.20
Diluted:			
Net income (loss) from continuing operations	**$ 2.11**	$ (0.93)	$ 1.21
Net income (loss) from discontinued operations	**(0.05)**	(0.23)	0.01
Extraordinary (loss), net of tax	**-**	-	(0.02)
Net income (loss) applicable to common stock	**$ 2.05** *(b)*	$ (1.16)	$ 1.20

Average common shares and equivalents outstanding of The Bank of New York Mellon Corporation *(in thousands)*	Year ended Dec. 31, **2010**	2009	2008
Basic	**1,212,630**	1,178,907	1,142,239
Common stock equivalents	**9,508**	-	10,383
Participating securities	**(5,924)**	-	(4,264)
Diluted	**1,216,214**	1,178,907 *(c)*	1,148,358
Anti-dilutive securities *(d)*	**87,058**	98,112	83,763

Reconciliation of net income (loss) from continuing operations applicable to the common shareholders of The Bank of New York Mellon Corporation *(in millions)*	Year ended Dec. 31, **2010**	2009	2008
Net income (loss) from continuing operations	**$ 2,647**	$ (813)	$ 1,455
Net (income) loss attributable to noncontrolling interests	**(63)**	(1)	(24)
Redemption charge and preferred dividends	**-**	(283)	(33)
Net income (loss) from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation	**2,584**	(1,097)	1,398
Net income (loss) from discontinued operations	**(66)**	(270)	14
Extraordinary (loss), net of tax	**-**	-	(26)
Net income (loss) applicable to the common shareholders of The Bank of New York Mellon Corporation	**$ 2,518**	$ (1,367)	$ 1,386

(a) *Basic and diluted earnings per share under the two-class method were calculated after deducting earnings allocated to participating securities of $23 million in 2010, $- million in 2009 and $10 million in 2008.*
(b) *Does not foot due to rounding.*
(c) *Diluted earnings per share for the year ended Dec. 31, 2009, was calculated using average basic shares. Adding back the dilutive shares would be anti-dilutive.*
(d) *Represents stock options, restricted stock, restricted stock units, participating securities and warrants outstanding but not included in the computation of diluted average common shares because their effect would be anti-dilutive.*

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

(dollar amounts in millions, except per share amounts)	Dec. 31, 2010	2009
Assets		
Cash and due from:		
Banks	**$ 3,675**	$ 3,732
Interest-bearing deposits with the Federal Reserve and other central banks	**18,549**	7,362
Interest-bearing deposits with banks	**50,200**	56,302
Federal funds sold and securities purchased under resale agreements	**5,169**	3,535
Securities:		
Held-to-maturity (fair value of $3,657 and $4,240)	**3,655**	4,417
Available-for-sale (Dec. 31, 2010 includes $483 previously securitized)	**62,652**	51,632
Total securities	**66,307**	56,049
Trading assets	**6,276**	6,001
Loans	**37,808**	36,689
Allowance for loan losses	**(498)**	(503)
Net loans	**37,310**	36,186
Premises and equipment	**1,693**	1,602
Accrued interest receivable	**508**	639
Goodwill	**18,042**	16,249
Intangible assets	**5,696**	5,588
Other assets (includes $1,075 and $863, at fair value)	**18,790**	16,737
Assets of discontinued operations	**278**	2,242
Subtotal assets of operations	**232,493**	212,224
Assets of consolidated asset management funds, at fair value:		
Trading assets	**14,121**	-
Other assets	**645**	-
Subtotal assets of consolidated asset management funds, at fair value	**14,766**	-
Total assets	**$247,259**	$212,224
Liabilities		
Deposits:		
Noninterest-bearing (principally domestic offices)	**$ 38,703**	$ 33,477
Interest-bearing deposits in domestic offices	**37,937**	32,944
Interest-bearing deposits in foreign offices	**68,699**	68,629
Total deposits	**145,339**	135,050
Federal funds purchased and securities sold under repurchase agreements	**5,602**	3,348
Trading liabilities	**6,911**	6,396
Payables to customers and broker-dealers	**9,962**	10,721
Commercial paper	**10**	12
Other borrowed funds	**2,858**	477
Accrued taxes and other expenses	**6,164**	4,484
Other liabilities (including allowance for lending related commitments of $73 and $125, also includes $590 and $610, at fair value)	**7,176**	3,891
Long-term debt (Dec. 31, 2010 includes $269 at fair value)	**16,517**	17,234
Liabilities of discontinued operations	**-**	1,608
Subtotal liabilities of operations	**200,539**	183,221
Liabilities of consolidated asset management funds, at fair value:		
Trading liabilities	**13,561**	-
Other liabilities	**2**	-
Subtotal liabilities of consolidated asset management funds, at fair value	**13,563**	-
Total liabilities	**214,102**	183,221
Temporary equity:		
Redeemable noncontrolling interests	**92**	-
Permanent equity:		
Common stock – par value $0.01 per common share; authorized 3,500,000,000 common shares; issued 1,244,608,989 and 1,208,861,641 common shares	**12**	12
Additional paid-in capital	**22,885**	21,917
Retained earnings	**10,898**	8,912
Accumulated other comprehensive loss, net of tax	**(1,355)**	(1,835)
Less: Treasury stock of 3,078,794 and 1,026,927 common shares, at cost	**(86)**	(29)
Total The Bank of New York Mellon Corporation shareholders' equity	**32,354**	28,977
Non-redeemable noncontrolling interests	**12**	26
Non-redeemable noncontrolling interests of consolidated asset management funds	**699**	-
Total permanent equity	**33,065**	29,003
Total liabilities, temporary equity and permanent equity	**$247,259**	$212,224

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	Year ended Dec. 31,		
(in millions)	**2010**	2009	2008
Operating activities			
Net income (loss)	**$ 2,581**	$ (1,083)	$ 1,443
Net income attributable to noncontrolling interests	**(63)**	(1)	(24)
Net income (loss) from discontinued operations	**(66)**	(270)	14
Extraordinary (loss), net of taxes	**-**	-	(26)
Net income (loss) from continuing operations attributable to The Bank of New York Mellon Corporation	**2,584**	(814)	1,431
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities:			
Provision for credit losses	**11**	332	104
Depreciation and amortization	**629**	711	878
Deferred income tax (benefit) expense	**1,199**	(1,970)	(1,257)
Net securities (gains) losses and venture capital income	**(57)**	5,387	1,659
Change in trading activities	**(155)**	(636)	(368)
Pension plan contribution	**(46)**	(394)	(80)
Change in accruals and other, net	**(115)**	1,192	513
Net effect of discontinued operations	**-**	(27)	34
Net cash provided by operating activities	**4,050**	3,781	2,914
Investing activities			
Change in interest-bearing deposits with banks	**7,073**	(9,635)	(13,973)
Change in interest-bearing deposits with the Federal Reserve and other central banks	**(11,187)**	45,908	(53,270)
Change in margin loans	**(2,153)**	(680)	1,233
Purchases of securities held-to-maturity	**(19)**	(114)	-
Paydowns of securities held-to-maturity	**255**	643	267
Maturities of securities held-to-maturity	**316**	280	238
Purchases of securities available-for-sale	**(23,585)**	(28,665)	(11,561)
Sales of securities available-for-sale	**5,981**	3,975	114
Paydowns of securities available-for-sale	**7,944**	6,361	4,950
Maturities of securities available-for-sale	**2,666**	2,001	5,468
Net principal received from loans to customers	**2,463**	4,948	4,660
Sales of loans and other real estate	**511**	851	334
Change in federal funds sold and securities purchased under resale agreements	**(1,634)**	(1,545)	6,095
Change in seed capital investments	**(160)**	(8)	56
Purchases of premises and equipment/capitalized software	**(230)**	(318)	(303)
Acquisitions, net cash	**(2,793)**	(364)	(511)
Dispositions, net cash	**133**	-	310
Proceeds from the sale of premises and equipment	**14**	6	41
Other, net	**(591)**	(987)	(171)
Net effect of discontinued operations	**59**	431	48
Net cash (used for) provided by investing activities	**(14,937)**	23,088	(55,975)
Financing activities			
Change in deposits	**8,527**	(24,774)	48,780
Change in federal funds purchased and securities sold under repurchase agreements	**2,058**	2,602	(660)
Change in payables to customers and broker-dealers	**(762)**	1,447	1,696
Change in other funds borrowed	**1,988**	(5,717)	5,596
Change in commercial paper	**(2)**	(126)	(3,941)
Net proceeds from the issuance of long-term debt	**1,347**	3,350	2,647
Repayments of long-term debt	**(2,614)**	(1,882)	(4,082)
Proceeds from the exercise of stock options	**31**	16	182
Issuance of common stock	**697**	1,371	40
Tax benefit realized on share-based payment awards	**1**	4	14
Treasury stock acquired	**(41)**	(28)	(308)
Common cash dividends paid	**(440)**	(599)	(1,107)
Series B preferred stock (repurchased) issued	**-**	(3,000)	2,779
Common stock warrant (repurchased) issued	**-**	(136)	221
Preferred dividends paid	**-**	(73)	(22)
Net effect of discontinued operations	**-**	(428)	(82)
Net cash provided by (used for) financing activities	**10,790**	(27,973)	51,753
Effect of exchange rate changes on cash	**40**	(53)	(438)
Change in cash and due from banks			
Change in cash and due from banks	**(57)**	(1,157)	(1,746)
Cash and due from banks at beginning of period	**3,732**	4,889	6,635
Cash and due from banks at end of period	**$ 3,675**	$ 3,732	$ 4,889
Supplemental disclosures			
Interest paid	**$ 591**	$ 682	$ 2,682
Income taxes paid	**699**	2,392	2,455
Income taxes refunded	**197**	664	65

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

	The Bank of New York Mellon Corporation shareholders								
(in millions, except per share amounts)	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Treasury stock	Non-redeemable non-controlling interest	Non-redeemable non-controlling interest of consolidated asset manage-ment funds	Total permanent equity	Redeemable non-controlling interests/ temporary equity
Balance at Dec. 31, 2009	$12	$21,917	$ 8,912	$(1,835)	$(29)	$ 26	$ -	$29,003 *(a)*	$ -
Adjustments for the cumulative effect of applying ASC 810	**-**	**-**	**52**	**24**	**-**	**-**	**-**	**76**	**-**
Adjustments for the cumulative effect of applying ASC 825	**-**	**-**	**(73)**	**-**	**-**	**-**	**-**	**(73)**	**-**
Adjusted balance at Jan. 1, 2010	**12**	**21,917**	**8,891**	**(1,811)**	**(29)**	**26**	**-**	**29,006**	**-**
Shares issued to shareholders of noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44**
Redemption of subsidiary shares from noncontrolling interests	**-**	**(18)**	**-**	**-**	**-**	**-**	**-**	**(18)**	**(6)**
Distributions paid to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**	**-**
Other net changes in noncontrolling interests	**-**	**15**	**(55)**	**-**	**-**	**(10)**	**(89)**	**(139)**	**50**
Consolidation of asset management funds	**-**	**-**	**-**	**-**	**-**	**-**	**785**	**785**	**-**
Deconsolidation of asset management funds	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(12)**	**-**
Comprehensive income:									
Net income	**-**	**-**	**2,518**	**-**	**-**	**-**	**59**	**2,577**	**4**
Other comprehensive income, net of tax	**-**	**-**	**-**	**461**	**-**	**-**	**(44)**	**417**	**-**
Reclassification adjustment *(b)*	**-**	**-**	**(14)**	**(5)**	**-**	**-**	**-**	**(19)**	**-**
Total comprehensive income	**-**	**-**	**2,504**	**456**	**-**	**-**	**15**	**2,975** *(c)*	**4**
Dividends on common stock at $0.36 per share	**-**	**-**	**(441)**	**-**	**-**	**-**	**-**	**(441)**	**-**
Repurchase of common stock	**-**	**-**	**-**	**-**	**(41)**	**-**	**-**	**(41)**	**-**
Common stock issued under:									
Stock forward contract	**-**	**676**	**-**	**-**	**-**	**-**	**-**	**676**	**-**
Employee benefit plans	**-**	**34**	**-**	**-**	**1**	**-**	**-**	**35**	**-**
Direct stock purchase and dividend reinvestment plan	**-**	**16**	**-**	**-**	**-**	**-**	**-**	**16**	**-**
Stock awards and options exercised	**-**	**245**	**(1)**	**-**	**(17)**	**-**	**-**	**227**	**-**
Balance at Dec. 31, 2010	**$12**	**$22,885**	**$10,898**	**$(1,355)**	**$(86)**	**$ 12**	**$699**	**$33,065** *(a)*	**$92**

(a) Includes total The Bank of New York Mellon common shareholders' equity of $28,977 million at Dec. 31, 2009, and $32,354 million at Dec. 31, 2010.
(b) Includes $(15) million (after tax) related to OTTI, and a $14 million reclassification to retained earnings from other comprehensive income.
(c) Comprehensive income attributable to The Bank of New York Mellon Corporation shareholders totaled $2,960 million for the year ended Dec. 31, 2010.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Equity (continued)

	The Bank of New York Mellon Corporation shareholders								
(in millions, except per share amounts)	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Treasury stock	Non-redeemable noncontrolling interests	Total permanent equity	
Balance at Dec. 31, 2008	$ 2,786	$11	$20,432	$10,225	$(5,401)	$ (3)	$ 39	$28,089	*(a)*
Adjustments for the cumulative effect of applying ASC 320, net of taxes of $470	-	-	-	676	(676)	-	-	-	
Adjusted balance at Jan. 1, 2009	2,786	11	20,432	10,901	(6,077)	(3)	39	28,089	
Purchase of subsidiary shares from noncontrolling interests	-	-	(74)	-	-	-	(11)	(85)	
Distributions paid to noncontrolling interests	-	-	-	-	-	-	(7)	(7)	
Comprehensive income:									
Net income	-	-	-	(1,084)	-	-	1	(1,083)	
Other comprehensive income, net of tax	-	-	-	-	926	-	4	930	
Reclassification adjustment	-	-	-	-	3,316	-	-	3,316	*(b)*
Total comprehensive income	-	-	-	(1,084)	4,242	-	5	3,163	*(c)*
Dividends:									
Common stock at $0.51 per share	-	-	-	(599)	-	-	-	(599)	
Preferred stock at $24.58 per share	-	-	-	(69)	-	-	-	(69)	
Repurchase of:									
Common stock	-	-	-	-	-	(28)	-	(28)	
Series B preferred stock	(3,000)	-	-	-	-	-	-	(3,000)	
Common stock warrant	-	-	(136)	-	-	-	-	(136)	
Common stock issued:									
In public offering	-	1	1,346	-	-	-	-	1,347	
In connection with acquisitions and investments	-	-	85	-	-	-	-	85	
Under employee benefit plans	-	-	49	-	-	2	-	51	
Under direct stock purchase and dividend reinvestment plan	-	-	19	-	-	-	-	19	
Amortization of preferred stock discount and redemption charge	214	-	-	(214)	-	-	-	-	
Stock awards and options exercised	-	-	197	-	-	-	-	197	
Other	-	-	(1)	(23)	-	-	-	(24)	
Balance at Dec. 31, 2009	$ -	$12	$21,917	$ 8,912	$(1,835)	$(29)	$ 26	$29,003	*(a)*

(a) Includes total common shareholders' equity of $25,264 million at Dec. 31, 2008, and $28,977 million at Dec. 31, 2009.
(b) Includes $3,348 million (after tax) related to OTTI that was reclassified to net securities gains (losses) on the income statement.
(c) Comprehensive income attributable to The Bank of New York Mellon Corporation shareholders totaled $3,158 million for the year ended Dec. 31, 2009.

Consolidated Statement of Changes in Equity (continued)

	The Bank of New York Mellon Corporation shareholders							
(in millions, except per share amounts)	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss), net of tax	Treasury stock	Non-redeemable noncontrolling interests	Total permanent equity
Balance at Dec. 31, 2007	$ -	$11	$19,990	$ 9,990	$ (549)	$ (39)	$ 182	$29,585 *(a)*
Adjustments for the cumulative effect of applying ASC 715 and ASC 825, net of taxes of $24	-	-	-	(57)	-	-	-	(57)
Adjusted balance at Jan. 1, 2008	-	11	19,990	9,933	(549)	(39)	182	29,528
Purchase of subsidiary shares from noncontrolling interests	-	-	-	-	-	-	(148)	(148)
Distributions paid to noncontrolling interest	-	-	-	-	-	-	(7)	(7)
Comprehensive income:								
Net income	-	-	-	1,419	-	-	24	1,443
Other comprehensive income, net of tax	-	-	-	-	(5,824)	-	(12)	(5,836)
Reclassification adjustment	-	-	-	-	972	-	-	972
Total comprehensive income	-	-	-	1,419	(4,852)	-	12	(3,421)*(b)*
Dividends:								
Common stock at $0.96 per share	-	-	-	(1,107)	-	-	-	(1,107)
Preferred stock at $8.75 per share	-	-	-	(26)	-	-	-	(26)
Repurchase of common stock	-	-	-	-	-	(308)	-	(308)
Common stock issued under:								
Employee benefit plans	-	-	12	(3)	-	58	-	67
Direct stock purchase and dividend reinvestment plan	-	-	-	(1)	-	31	-	30
Series B preferred stock issued	2,779	-	-	-	-	-	-	2,779
Amortization of preferred stock discount	7	-	-	(7)	-	-	-	-
Stock awards and options exercised	-	-	200	-	-	249	-	449
Warrant issued in connection with TARP	-	-	221	-	-	-	-	221
Other	-	-	9	17	-	6	-	32
Balance at Dec. 31, 2008	$2,786	$11	$20,432	$10,225	$(5,401)	$ (3)	$ 39	$28,089 *(a)*

(a) Includes total common shareholders' equity of $29,403 million at Dec. 31, 2007 and $25,264 million at Dec. 31, 2008.
(b) Comprehensive loss attributable to The Bank of New York Mellon Corporation shareholders totaled $3,433 million for the year ended Dec. 31, 2008.

Note 1—Summary of significant accounting and reporting policies

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 preparation of financial statements in conformity with U.S. GAAP requires management to make estimates based on assumptions about future economic and market conditions which affect reported amounts and related disclosures in our financial statements. Amounts subject to estimates are items such as the allowance for loan losses and lending-related commitments, goodwill and intangible assets, pension accounting, the fair value of financial instruments and other-than-temporary impairments. Actual results could differ from these estimates.

In the opinion of management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the annual periods have been made. Certain other immaterial reclassifications have been made to prior years to place them on a basis comparable with current period presentation.

The consolidated financial statements include the accounts of BNY Mellon and its subsidiaries. Equity investments of less than a majority but at least 20% ownership are accounted for by the equity method and classified as other assets. Earnings on these investments are reflected in fee and other revenue as securities servicing fees or investment income, as appropriate, in the period earned. Our most significant equity method investments are:

Equity method investments at Dec. 31, 2010		
(dollars in millions)	Percent Ownership	Book Value
CIBC Mellon	**50.0%**	**$588**
Wing Hang	**20.3%**	**$347**
Siguler Guff	**20.0%**	**$257**
ConvergEx	**33.2%**	**$152**
West LB Joint Venture	**50.0%**	**$122**

The income statement and balance sheet include results of acquired businesses accounted for under the acquisition method of accounting pursuant to ASC 805—*Business Combinations* and equity investments from the dates of acquisition. For acquisitions prior to Jan. 1, 2009, we recorded any contingent purchase payments when the amounts were resolved and became payable. For acquisitions occurring after Dec. 31, 2008, contingent purchase consideration was measured at its fair value and recorded on the purchase date.

The Parent financial statements in Note 21 of the Notes to Consolidated Financial Statements include the accounts of the Parent; those of a wholly owned financing subsidiary that functions as a financing entity for BNY Mellon and its subsidiaries by issuing commercial paper and other debt guaranteed by BNY Mellon; and MIPA, LLC, a single member company, created to hold and administer corporate owned life insurance. Financial data for the Parent, the financing subsidiary and the single member company are combined for financial reporting purposes because of the limited function of these entities and the unconditional guarantee by BNY Mellon of their obligations.

Variable interest entities

We consider the underlying facts and circumstances of individual transactions when assessing whether or not an entity is a potential variable interest entity ("VIE"). VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest. BNY Mellon applies ASC 810 to its mutual funds, hedge funds, private equity funds, collective investment funds and real estate investment trusts, which were determined to be VIEs. Generally, the company is deemed to be the primary beneficiary and thus required to consolidate a VIE, if BNY Mellon has a variable interest (or combination of variable interests) that, based on a quantitative analysis, will absorb a majority of the VIE's expected losses, that will receive a majority of the VIE's expected residual returns, or both. A "variable interest" is a contractual, ownership or other interest that changes with changes in the fair value of the VIE's net assets. "Expected losses" and "expected residual returns" are measures of variability in the expected cash flows of a VIE.

BNY Mellon's other VIEs are evaluated under the guidance included in ASU 2009-17. These other VIEs, include securitization trusts, which are no longer considered QSPEs, 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. The company must determine whether or not its variable interests in these VIEs based on qualitative analysis provide BNY Mellon with a controlling financial interest in the VIE. The analysis includes an assessment of the characteristics of the VIE. The Company is considered to have a controlling financial interest in the VIE, which would require consolidation of the VIE, if it has the following characteristics: (1) the power to direct the activities that most significantly impact the VIE's economic performance; and (2) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Nature of operations

BNY Mellon is a global leader in providing a broad range of financial products and services in domestic and international markets. Through our seven businesses (Asset Management, Wealth Management, Asset Servicing, Issuer Services, Clearing Services, Treasury Services and Other), we serve the following major classes of customers—institutions, corporations, and high net worth individuals. For institutions and corporations, we provide the following services:

- investment management;
- trust and custody;
- foreign exchange;
- securities lending;
- depositary receipts;
- corporate trust;
- shareowner services;
- global payment/cash management; and
- banking services.

For individuals, we provide mutual funds, separate accounts, wealth management and private banking services. BNY Mellon's asset management businesses provide investment products in many asset classes and investment styles on a global basis.

Trading account securities, available-for-sale securities, and held-to-maturity securities

Securities are accounted for under ASC 320 *Investments—Debt and Equity Securities.* Securities are generally classified in the trading, available-for-sale investment or the held-to-maturity investment securities portfolios when they are purchased. Securities are classified as trading securities when our intention is to resell. Securities are classified as available-for-sale securities when we intend to hold the securities for an indefinite period of time or when the securities may be used for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure, prepayment risk and liquidity needs. Securities are classified as held-to-maturity securities when we intend to hold them until maturity. Seed capital investments are classified as other assets, trading securities or available-for-sale securities, depending on the nature of the investment and management's intent.

Trading securities are stated at fair value. Trading revenue includes both realized and unrealized gains and losses. The liability incurred on short-sale transactions, representing the obligation to deliver securities, is included in trading liabilities at fair value.

Available-for-sale securities are stated at fair value. The difference between fair value and amortized cost representing unrealized gains or losses on assets classified as available-for-sale, are recorded net of tax as an addition to or deduction from other comprehensive income ("OCI"), unless a security is deemed to have an other-than-temporary impairment ("OTTI"). Gains and losses on sales of available-for-sale securities are reported in the income statement. The cost of debt and equity securities sold is determined on a specific identification and average cost method, respectively. Unrealized gains and losses on seed capital investments classified as other assets are recorded in investment income. Held-to-maturity securities are stated at cost.

Income on securities purchased is adjusted for amortization of premium and accretion of discount on a level yield basis, unless a security is other-than-temporarily impaired.

Effective 2009, the Company adopted FAS 115-2 and FAS 124-2 "Recognition and Presentation of Other-Than-Temporary Impairments" (included in ASC 320), which changed the accounting and disclosure for OTTI. Under this new guidance, only the credit component of an OTTI of a debt security is recognized in earnings and the noncredit component is recognized in OCI when we do not intend to sell the security and it is more likely than not that BNY Mellon will not be required to sell the security prior to recovery.

For held-to-maturity debt securities, the amount of OTTI recorded in OCI for the non-credit portion of a previous OTTI is amortized prospectively, as an increase to the carrying amount of the security, over the remaining life of the security on the basis of the timing of future estimated cash flows of the securities. In order not to be required to recognize the non-credit component of an OTTI in earnings, management is required to assert that it does not have the intent to sell the security and that it is more likely than not it will not have to sell the security before recovery of its cost basis.

If we intend to sell the security or it is more likely than not that BNY Mellon will be required to sell the security prior to recovery, the non-credit component of OTTI is recognized in earnings and subsequently accreted to interest income on an effective yield basis over the life of the security.

ASC 325 *Investments—Other* provides additional specific guidance for unrated investments which are beneficial interests in securitized financial assets. BNY Mellon decides whether a security is within the scope of ASC 325 upon its acquisition and does not alter this decision if the security is subsequently downgraded. Under ASC 325, the excess of future estimated cash flows over the initial carrying amount of the investment is accreted to interest income over the life of the investment using the effective yield method.

We routinely conduct periodic reviews to identify and evaluate each investment security to determine whether OTTI has occurred. We examine various factors when determining whether an impairment, representing the fair value of a security being below its amortized cost, is other than temporary. The following are examples of factors that BNY Mellon considers:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- Whether management has an intent to sell the security;
- Whether the decline in fair value is attributable to specific adverse conditions affecting a particular investment;
- Whether the decline in fair value is attributable to specific conditions, such as conditions in an industry or in a geographic area;
- Whether a debt security has been downgraded by a rating agency;
- Whether a debt security exhibits cash flow deterioration; and
- For each non-agency RMBS, we compare the remaining credit enhancement that protects the individual security from losses against the projected losses of principal and/or interest expected to come from the underlying mortgage collateral, to determine whether such credit losses might directly impact the relevant security.

The accounting policies for the determination of the fair value of financial instruments and OTTI have been identified as "critical accounting estimates" as they require us to make numerous assumptions based on available market data. See Note 5 of the Notes to Consolidated Financial Statements for these disclosures.

Loans and leases

Loans are reported net of any unearned discount. Loan origination and upfront commitment fees, as well as certain direct loan origination and commitment costs, are deferred and amortized as a yield adjustment over the lives of the related loans. Deferred fees and costs are netted against outstanding loan balances. Loans held for sale are carried at the lower of aggregate cost or fair value.

Unearned revenue on direct financing leases is accreted over the lives of the leases in decreasing amounts to provide a constant rate of return on the net investment in the leases. Revenue on leveraged leases is recognized on a basis to achieve a constant yield on the outstanding investment in the lease, net of the related deferred tax liability, in the years in which the net investment is positive. Gains and losses on residual values of leased equipment sold are included in investment income. Considering the nature of these leases and the number of significant assumptions, there is risk associated with the income recognition on these leases should any of the assumptions change materially in future periods.

Nonperforming assets

Commercial loans are placed on nonaccrual status when principal or interest is past due 90 days or more, or when there is reasonable doubt that interest or principal will be collected.

When a first lien residential mortgage loan reaches 90 days delinquent, it is subject to an impairment test and may be placed on nonaccrual status. At 180 days delinquent, the loan is subject to further impairment testing. The loan will remain on accrual status if the realizable value of the collateral exceeds the unpaid principal balance plus accrued interest. If the loan is impaired, a charge-off is taken and the loan is placed on nonaccrual status. At 270 days delinquent, all first lien mortgages are placed on nonaccrual status. Second lien mortgages are automatically placed on nonaccrual status when they reach 90 days delinquent. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against current period interest revenue. Interest receipts on nonaccrual and impaired loans are recognized as interest revenue or are applied to principal when we believe the ultimate collectability of principal is in doubt. Nonaccrual loans generally are restored to an accrual basis when principal and interest become current.

A loan is considered to be impaired, as defined by ASC 310—*Accounting by Creditors for Impairment of a Loan*, when it is probable that we will be unable to collect all principal and interest amounts due according to the contractual terms of the loan agreement. An impairment allowance is measured on loans greater than $1 million and which meet the definition of an impaired loan per ASC 310.

Impaired loans greater than $1 million are required to be measured based upon the loan's market price, the present value of expected future cash flows, discounted at the loan's initial effective interest rate, or at fair value of the collateral if the loan is collateral dependent. If the loan valuation is less than the recorded value of the loan, an impairment allowance is established by either an allocation of the allowance for credit losses or by a provision for credit losses. Impairment allowances are not needed when the recorded investment in an impaired loan is less than the loan valuation.

Allowance for loan losses and allowance for lending related commitments

The allowance for loans losses, shown as a valuation allowance to loans, and the allowance for lending related commitments are referred to as BNY Mellon's allowance for credit exposure. The accounting policy for the determination of the adequacy of the allowances has been identified as a "critical accounting estimate" as it requires us to make numerous complex and subjective estimates and assumptions relating to amounts which are inherently uncertain.

The allowance for loans losses is maintained to absorb losses inherent in the loan portfolio as of the balance sheet date based on our judgment. The allowance determination methodology is designed to provide procedural discipline in assessing the appropriateness of the allowance. Credit losses are charged against the allowance. Recoveries are added to the allowance.

The methodology for determining the allowance for lending related commitments considers the same factors as the allowance for loan losses, as well as an estimate of the probability of drawdown. In 2010, we expanded the description of the elements of the allowance for loan losses and lending related commitments from three to four. This change did not impact the methodology used to calculate the allowance or provision for credit losses.

The four elements of the allowance for loan losses and the allowance for lending related commitments are:

- an allowance for impaired credits (nonaccrual loans over $1 million);
- an allowance for higher risk-rated credits and pass-rated credits;
- an allowance for residential mortgage loans (previously included in element 2); and
- an unallocated allowance based on general economic conditions and risk factors in our individual markets.

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

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

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 based on a combination of external loss data from third party databases and internal loss history is assigned for each mortgage pool. For each pool, the expected loss is calculated using the above factors. The resulting expected loss factor is applied against the loan balance to determine the reserve held for each pool.

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

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

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

Premises and equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful life of the owned asset and, for leasehold improvements, over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement. For owned and capitalized assets, estimated useful lives range from 2 to 40 years. Maintenance and repairs are charged to expense as incurred, while major improvements are capitalized and amortized to operating expense over their identified useful lives.

Software

BNY Mellon capitalizes costs relating to acquired software and internal-use software development projects that provide new or significantly improved functionality. We capitalize projects that are expected to result in longer-term operational benefits, such as replacement systems or new applications that result in significantly increased operational efficiencies or functionality. All other costs incurred in connection with an internal-use software project are expensed as incurred. Capitalized software is recorded in other assets.

Identified intangible assets and goodwill

Identified intangible assets with estimable lives are amortized in a pattern consistent with the assets' identifiable cash flows or using a straight-line method over their remaining estimated benefit periods if the pattern of cash flows is not estimable. Intangible assets with estimable lives are reviewed for possible impairment when events or changed circumstances may affect the underlying basis of the asset. Goodwill and intangibles with indefinite lives are not amortized, but are assessed at least annually for impairment. The accounting policy for valuing and impairment testing of identified intangible assets and goodwill has been identified as a "critical accounting estimate" as it requires us to make numerous complex and subjective estimates. See Note 7 of the Notes to Consolidated Financial Statements for additional disclosures related to goodwill and intangible assets.

Noncontrolling Interests

Noncontrolling interests included in permanent equity are adjusted for the income or (loss) attributable to the noncontrolling interest holders and any distributions to those shareholders. Redeemable noncontrolling interests are reported as temporary equity. In accordance with ASC 480, *Distinguishing Liabilities from Equity*, BNY Mellon recognizes changes in the redemption value of the redeemable noncontrolling interests as they occur and adjusts the carrying value to be equal to the redemption value.

Fee revenue

We record security servicing fees, asset and wealth management fees, foreign exchange and other trading revenue, treasury services, financing-related fees, distribution and servicing, and other revenue when the services are provided and earned based on contractual terms, when amounts are determined and collectibility is reasonably assured.

Additionally, we recognize revenue from non-refundable, up-front implementation fees under outsourcing contracts using a straight-line method, commencing in the period the ongoing services are performed through the expected term of the contractual relationship. Incremental direct set-up costs of implementation, up to the related implementation fee or minimum fee revenue amount, are deferred and amortized over the same period that the related implementation fees are recognized. If a client terminates an outsourcing contract prematurely, the unamortized deferred incremental direct set-up costs and the unamortized deferred up-front implementation fees related to that contract are recognized in the period the contract is terminated.

Performance fees are recognized in the period in which the performance fees are earned and become determinable. Performance fees are generally calculated as a percentage of the applicable portfolio's performance in excess of a benchmark index or a peer group's performance. When a portfolio underperforms its benchmark or fails to generate positive performance, subsequent years' performance must generally exceed this shortfall prior to fees being earned. Amounts billable in subsequent years and which are subject to a clawback if performance thresholds in those years are not met are not recognized since the fees are potentially uncollectible. These fees are recognized when it is determined that they will be collected. When a multi-year performance contract provides that fees earned are billed ratably over the performance period, only the portion of the fees earned that are non-refundable are recognized.

Net interest revenue

Revenue on interest-earning assets and expense on interest-bearing liabilities is recognized based on the effective yield of the related financial instrument.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated to U.S. dollars at the rate of exchange on the balance sheet date. Transaction gains and losses are included in the income statement. Translation gains and losses on investments in foreign entities with functional currencies that are not the U.S. dollar are recorded as foreign currency translation adjustments in other comprehensive results. Revenue and expense accounts are translated monthly at an average monthly exchange rate.

Pension

The measurement date for BNY Mellon's pension plans is Dec. 31. Plan assets are determined based on fair value generally representing observable market prices. The projected benefit obligation is determined based on the present value of projected benefit distributions at an assumed discount rate. The discount rate utilized is based on the yield of high-quality corporate bonds available in the marketplace. The net periodic pension expense or credit includes service costs, interest costs based on an assumed discount rate, an expected return on plan assets based on an actuarially derived market-related value and amortization of prior years' actuarial gains and losses.

Actuarial gains and losses include the impact of plan amendments, gains or losses related to changes in the amount of the projected benefit obligation or plan assets resulting from experience different from the assumed rate of return, changes in the discount rate or other assumptions. To the extent an actuarial gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets, the excess is recognized over the future service periods of active employees.

Our expected long-term rate of return on plan assets is based on anticipated returns for each asset class. Anticipated returns are weighted for the expected allocation for each asset class and are based on forecasts for prospective returns in the equity and fixed income markets, which should track the long-term historical returns for these markets. We also consider the growth outlook for U.S. and global economies, as well as current and prospective interest rates.

The market-related value utilized to determine the expected return on plan assets is based on the fair value of plan assets adjusted for the difference between expected returns and actual performance of plan assets. The difference between actual experience and expected returns on plan assets is included as an adjustment in the market-related value over a five-year period.

BNY Mellon's accounting policy regarding pensions has been identified as a "critical accounting estimate" as it is regarded to be critical to the presentation of our financial statements since it requires management to make numerous complex and subjective assumptions relating to amounts which are inherently uncertain. See Note 20 of the Notes to Consolidated Financial Statements for additional disclosures related to pensions.

Severance

BNY Mellon provides separation benefits for U.S.-based employees through The Bank of New York Mellon Corporation Supplemental Unemployment Benefit Plan, which replaced The Bank of New York Mellon Corporation Separation Plan, The Bank of New York Company, Inc. Separation Plan and the Mellon Financial Corporation Displacement Program for separations on or after May 24, 2010. These benefits are provided to eligible employees separated from their jobs for business reasons not related to individual performance. Basic separation benefits are

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 table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy as of Dec. 31, 2010 and 2009, for which a nonrecurring change in fair value has been recorded during the years ended Dec. 31, 2010 and 2009.

Assets measured at fair value on a nonrecurring basis at Dec. 31, 2010 *(in millions)*	Level 1	Level 2	Level 3	Total carrying value
Loans *(a)*	$-	$188	$53	$241
Other assets *(b)*	-	6	-	6
Total assets at fair value on a nonrecurring basis	**$-**	**$194**	**$53**	**$247**

Assets measured at fair value on a nonrecurring basis at Dec. 31, 2009 *(in millions)*	Level 1	Level 2	Level 3	Total carrying value
Loans *(a)*	$-	$298	$91	$389
Other assets *(b)*	-	4	-	4
Total assets at fair value on a nonrecurring basis	$-	$302	$91	$393

(a) During the years ended Dec. 31, 2010 and 2009, the fair value of these loans was reduced $15 million and $18 million, based on the fair value of the underlying collateral as allowed by ASC 310, Accounting by Creditors for Impairment of a loan, with an offset to the allowance for credit losses.

(b) Other assets received in satisfaction of debt. The fair value of these assets was reduced by $1 million in 2010 and less than $1 million in 2009, based on the fair value of the underlying collateral with an offset in other revenue.

Note 24—Fair value option

ASC 825 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously carried at fair value.

On Jan. 1, 2010, we adopted SFAS No. 167, “Amendments to FASB interpretation No. 46(R)” (Topic 810), issued by the Financial Accounting Standards Board (“FASB”). In accordance with the guidance included in ASC 810, we consolidated assets of consolidated asset management funds. The following table presents the assets and liabilities, by type, of consolidated asset management funds. We recorded these assets and liabilities at fair value and they are classified as trading assets and liabilities.

Assets and liabilities of consolidated asset management funds, at fair value *(in millions)*	Dec. 31, 2010	Dec. 31, 2009
Assets of consolidated asset management funds:		
Trading assets	**$14,121**	$-
Other assets	**645**	-
Total assets of consolidated asset management funds	**$14,766**	$-
Liabilities of consolidated asset management funds:		
Trading liabilities	**$13,561**	$-
Other liabilities	**2**	-
Total liabilities of consolidated asset management funds	**$13,563**	$-
Noncontrolling interests of consolidated asset management funds	**$ 699**	$-

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. Accordingly, mark-to-market best reflects the limited interest BNY Mellon has in the economic performance of the consolidated CLOs. Changes in the values of assets and liabilities are reflected in the income statement as investment income of consolidated asset management funds.

We have elected the fair value option on $240 million of long-term debt in connection with ASC 810. At Dec. 31, 2010, the fair value of this long-term debt was $269 million. We have also elected the fair value option on approximately $118 million of unfunded lending related commitments. The following table presents the changes in fair value of these unfunded lending related commitments and long-term debt included in foreign exchange and other trading revenue in the consolidated income statement for the years ended Dec. 31, 2010 and 2009.

Foreign exchange and other trading revenue	Year ended Dec. 31,	
(in millions)	**2010**	2009
Loans	**$-**	$3
Long-term debt *(a)*	**(29)**	-

(a) *The change in fair value of the long-term debt is approximately offset by an economic hedge included in trading.*

The long-term debt is valued using observable market inputs and is included in Level 2 of the ASC 820 hierarchy. Unfunded loan commitments are valued using quotes from dealers in the loan markets, and are included in Level 3 of the ASC 820 hierarchy. The fair market value of unfunded lending-related commitments for which the fair value option was elected was a liability of less than $1 million at Dec. 31, 2010 and Dec. 31, 2009 and is included in other liabilities.

Note 25—Commitments and contingent liabilities

In the normal course of business, various commitments and contingent liabilities are outstanding which are not reflected in the accompanying consolidated balance sheets.

Our significant trading and off-balance sheet risks are securities, foreign currency and interest rate risk management products, commercial lending commitments, letters of credit, securities lending indemnifications and support agreements. We assume these risks to reduce interest rate and foreign currency risks, to provide customers with the ability to meet credit and liquidity needs, to hedge foreign currency and interest rate risks and to trade for our own account. These items involve, to varying degrees, credit, foreign exchange and interest rate risk not recognized in the balance sheet. Our off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. Significant industry concentrations related to credit exposure at Dec. 31, 2010, are disclosed in the Financial institutions portfolio exposure table and the Commercial portfolio exposure table below.

Financial institutions portfolio exposure *(in billions)*	Dec. 31, 2010		
	Loans	**Unfunded commitments**	**Total exposure**
Securities industry	**$3.9**	**$ 2.3**	**$ 6.2**
Banks	**4.2**	**2.2**	**6.4**
Insurance	**0.1**	**5.0**	**5.1**
Asset managers	**0.8**	**2.4**	**3.2**
Government	**0.2**	**2.1**	**2.3**
Other	**0.1**	**1.8**	**1.9**
Total	**$9.3**	**$15.8**	**$25.1**

Commercial portfolio exposure *(in billions)*	Dec. 31, 2010		
	Loans	**Unfunded commitments**	**Total exposure**
Services and other	**$0.7**	**$ 5.9**	**$ 6.6**
Manufacturing	**0.4**	**5.9**	**6.3**
Energy and utilities	**0.3**	**5.4**	**5.7**
Media and telecom	**0.2**	**1.6**	**1.8**
Total	**$1.6**	**$18.8**	**$20.4**

Major concentrations in securities lending are primarily to broker-dealers and are generally collateralized with cash. Securities lending transactions are discussed below.

A summary of our off-balance sheet credit risks, net of participations, at Dec. 31, 2010 and 2009 follows:

Off-balance sheet credit risks	Dec. 31,	
(in millions)	**2010**	2009
Lending commitments *(a)*	**$ 29,100**	$ 32,454
Standby letters of credit *(b)*	**8,483**	11,359
Commercial letters of credit	**512**	789
Securities lending indemnifications	**278,069**	247,560
Support agreements	**116**	86

(a) *Net of participations totaling $423 million at Dec. 31, 2010 and $541 million at Dec. 31, 2009.*
(b) *Net of participations totaling $1.7 billion at Dec. 31, 2010 and $2.2 billion at Dec. 31, 2009.*

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: $10.5 billion less than one year; $18.3 billion in one to five years and $0.3 billion over five years.

Standby letters of credit ("SBLC") principally support corporate obligations. As shown in the off-balance sheet credit risks table, the maximum potential exposure of SBLCs was $8.5 billion at Dec. 31, 2010, and $11.4 billion at Dec. 31, 2009, and includes $628 million and $1.0 billion that were collateralized with cash and securities at Dec. 31, 2010 and 2009, respectively. At Dec. 31, 2010, approximately $6.1 billion of the SBLCs will expire within one year and the remaining $2.4 billion will expire within 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 unfunded commitments. The allowance for unfunded commitments was $73 million at Dec. 31, 2010, and $125 million at Dec. 31, 2009.

Payment/performance risk of SBLCs is monitored using both historical performance and internal ratings criteria. BNY Mellon's historical experience is that SBLCs typically expire without being funded. SBLCs below investment grade are monitored closely for payment/performance risk. The table below shows SBLCs by investment grade:

Standby letters of credit	**Dec. 31,**	
	2010	2009
Investment grade	**89%**	83%
Noninvestment grade	**11%**	17%

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 $512 million at Dec. 31, 2010, compared with $789 million at Dec. 31, 2009.

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 broker default. We generally require the borrower to provide 102% cash collateral, 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 $285 billion at Dec. 31, 2010, and $254 billion at Dec. 31, 2009. We recorded $150 million of fee revenue from securities lending transactions in 2010 compared with $259 million in 2009.

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.

Our potential exposure to support agreements was approximately $116 million at Dec. 31, 2010, compared with $86 million at Dec. 31, 2009. Potential support agreement exposure is determined based on the securities subject to these agreements being valued at zero and the NAV of the related funds declining below established thresholds. This exposure includes agreements covering Lehman securities, as well as other client support agreements.

Trust and transfer agent activities

BNY Mellon maintains several escrow accounts in which deposits are received from clients in connection with corporate trust and dividend and interest payment services. Since BNY Mellon acts only as a transfer and trust agent for these funds, neither the assets nor the corresponding liability are included in these financial statements. In connection with the performance of these services, BNY Mellon invests such funds in interest-earning investments solely in an agency capacity. The interest earned is recognized in the financial statements as interest income. Customer balances maintained in an agency capacity and not reflected on BNY Mellon's balance sheets totaled approximately $275 million at Dec. 31, 2010, and $1.4 billion at Dec. 31, 2009. In addition, as a result of the GIS acquisition, our clients maintain approximately $6.8 billion of custody cash on deposit with other institutions. Revenue generated from these balances is included in other revenue on the income statement. These deposits are expected to transition to BNY Mellon by the end of 2011.

Operating leases

Net rent expense for premises and equipment was $314 million in 2010, $327 million in 2009 and $362 million in 2008.

At Dec. 31, 2010, we were obligated under various noncancelable lease agreements, some of which provide for additional rents based upon real estate taxes, insurance and maintenance and for various renewal options. A summary of the future minimum rental commitments under noncancelable operating leases, net of related sublease revenue, is as follows: 2011—$311 million; 2012—$284 million; 2013—$266 million; 2014—$225 million; and 2015—$202 million; and 2016 through 2030—$937 million.

Other

We have provided standard representations for underwriting agreements, acquisition and divestiture agreements, sales of loans and commitments, and other similar types of arrangements and customary indemnification for claims and legal proceedings related to providing financial services. Insurance has been purchased to mitigate certain of these risks. We are a minority equity investor in, and member of, several industry clearing or settlement exchanges through which foreign exchange, securities or other transactions settle. Certain of these industry clearing or settlement exchanges require their members to guarantee their obligations and liabilities or to provide financial support in the event other partners do not honor their obligations. It is not possible to estimate a maximum potential amount of payments that could be required with such agreements.

Legal proceedings

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 reserves 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 reserve, and will adjust the reserve amount as appropriate. If the loss contingency in question is not both probable and reasonably estimable, BNY Mellon does not establish a reserve 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, exclusive of those matters described herein that are subject to the accounting and reporting requirements of ASC 740 (FASB Interpretation 48)(FIN48), the aggregate range of such reasonably possible loss is between $200 million to $500 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 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 on Dec. 1, 2010.

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.

Auction Rate Securities Matters

As previously disclosed, in April 2008, BNY Mellon notified the SEC that Mellon Financial Markets LLC ("MFM") placed orders on behalf of certain issuers to purchase their own Auction Rate Securities ("ARS"). The Texas State Securities Board, Florida Office of Financial Regulation and the New York State Attorney General began investigating this matter in approximately October 2008 and are focused on whether and to what extent the issuers' orders had the effect of reducing the clearing rate and preventing failed auctions. These investigations, with which MFM is fully cooperating, are ongoing.

As previously disclosed, in February and April 2009, two institutional customers filed lawsuits in Texas state District Court for Dallas County, and California state Superior Court for Orange County. A third institutional customer filed an arbitration proceeding in December 2008, alleging misrepresentations and omissions in the sale of ARS. Together, these three customers seek rescission of approximately $68 million of ARS, damages of approximately $20 million, and interest and attorneys' fees.

Agency Cross Trading Matter

As previously disclosed, on July 22, 2008, BNY Mellon notified FINRA and the SEC that employees of BNY Mellon Securities LLC, a broker-dealer subsidiary of the Company, which executed orders to purchase and sell securities on behalf of Mellon Investor Services LLC, failed to comply with certain best execution and regulatory requirements in connection with agency cross trades. On Jan. 14, 2011, the SEC announced the settlement of its subsequent action against BNY Mellon Securities LLC, finding that it had failed to supervise traders on its equity desk, censuring BNY Mellon Securities LLC and imposing monetary sanctions totaling $24 million.

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 Asset Servicing business. The lawsuits were filed on various dates from December 2008 to 2011, and are currently pending in courts in Oklahoma, New York, Washington, California and South Carolina 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., Lehman Brothers Holdings, Inc. and certain asset-backed securities, and seek damages as to those losses. Two of the pending cases seek to proceed as class actions.

Matters Relating To Bernard L. Madoff

As previously disclosed, on May 11, 2010, the New York State Attorney General commenced a civil lawsuit against Ivy Asset Management LLC ("Ivy"), a subsidiary of BNY Mellon that manages primarily funds-of-hedge-funds, and two of its former officers in New York state court. The lawsuit alleges that Ivy, in connection with its role as sub-advisor to investment managers whose clients invested with Madoff, did not disclose certain material facts about Madoff. The complaint seeks an accounting of compensation received from January 1997 to the present by the Ivy defendants in connection with the Madoff investments, and unspecified damages, including restitution, disgorgement, costs and attorneys' fees.

As previously disclosed, on Oct. 21, 2010, the U.S. Department of Labor commenced a civil lawsuit against Ivy, two of its former officers, and others in federal court in the Southern District of New York. The lawsuit alleges that Ivy violated the Employee Retirement Income Security Act ("ERISA") by failing to disclose certain material facts about Madoff to investment managers subadvised by Ivy whose clients included employee benefit plan investors. The complaint seeks disgorgement and damages. On Dec. 8, 2010, the Trustee overseeing the Madoff liquidation sued many of the same defendants in bankruptcy court in New York, seeking to avoid withdrawals from Madoff investments made by various funds-of-funds (including six funds-of-funds managed by Ivy).

As previously disclosed, Ivy or its affiliates have been named in a number of civil lawsuits filed beginning Jan. 27, 2009 relating to certain investment funds that allege losses due to the Madoff investments. Ivy acted as a sub-advisor to the investment managers of some of those funds. Plaintiffs assert various causes of action including securities and common-law fraud. Certain of the cases seek to proceed as class actions and/or to assert derivative claims on behalf of the funds. Most of the cases have been consolidated in two actions in federal court in the Southern District of New York, with certain cases filed in New York state Supreme Court for New York and Nassau counties.

Medical Capital Litigations

As previously disclosed, The Bank of New York Mellon has been named as a defendant in a number of putative class actions and non-class actions brought by numerous plaintiffs in connection with its role as indenture trustee for debt issued by affiliates of Medical Capital Corporation. The actions, filed in late 2009 and currently pending in federal court in the Central District of California, allege that The Bank of New York Mellon breached its fiduciary and contractual obligations to the holders of the underlying securities, and seek unspecified damages.

Foreign Exchange Matters

As previously disclosed, beginning in December 2009, certain governmental authorities have requested information or served subpoenas on BNY Mellon seeking information relating to foreign exchange transactions in connection with custody services BNY Mellon provides to certain clients, including certain governmental entities and public pension plans. BNY Mellon is cooperating with these inquiries. In January 2011, the Virginia Attorney General filed a Notice of Intervention in a lawsuit filed in Virginia Circuit Court, Fairfax County by a private party under the Virginia Fraud Against Taxpayers Act. The plaintiff in that action alleges that BNY Mellon improperly charged and reported prices for foreign exchange transactions in connection with custody services BNY Mellon provides to certain Virginia pension funds. In February 2011, the Florida Attorney General filed a Notice of Intervention in a lawsuit filed in Florida Circuit Court, Leon County by a private party under the Florida False Claims Act. The plaintiff in that action alleges that BNY Mellon improperly charged and reported prices for foreign exchange transactions in connection with custody services BNY Mellon provides to a Florida pension fund.

German Broker-Dealer Litigation

As previously disclosed, on various dates from 2004 to 2011, BNY Mellon subsidiary Pershing LLC ("Pershing") was named as a defendant in more than 100 lawsuits filed in Germany by plaintiffs who are investors with accounts at German broker-dealers. The plaintiffs allege that Pershing, which had a contractual relationship with the broker-dealers through which the broker-dealers executed options transactions on behalf of the broker-dealers' clients, should be held liable for the tortious acts of the broker-dealers. Plaintiffs seek to recover their investment losses, interest, and statutory attorney's fees and costs. On March 9, 2010, the German Federal Supreme Court ruled in the plaintiff's favor in one of these cases, and held Pershing liable for a German broker-dealer's tortious acts. On July 19, 2010, Pershing appealed that decision to the German Constitutional Court. In another similar case, in December 2010, the Federal Supreme Court denied Pershing's appeals, and ruled in favor of 12 plaintiffs, in conformance with its March 2010 decision. On Jan. 25, 2011, the Federal Supreme Court ruled in the plaintiffs' favor in four other similar cases, and remanded an additional four cases to the appellate court for further findings.

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 are seeking 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.

Withholding Tax Matters
As previously disclosed, in 2007, in connection with its obligation to file information and withholding tax returns with the IRS for its various businesses, BNY Mellon became aware of certain inconsistencies in supporting documentation and records for certain of BNY Mellon's businesses, and initiated an extensive company-wide review. We notified the IRS of the inconsistencies and continue to cooperate with the IRS in its review of this matter.

Tax Litigation
As previously disclosed, in 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 U.K. 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. A trial is currently scheduled for Dec. 5, 2011. The aggregate tax benefit for all six years in question is approximately $900 million, including interest. In the event BNY Mellon is unsuccessful in defending its position, the IRS has agreed not to assess underpayment penalties.

Note 26—Derivative instruments

We use derivatives to manage exposure to market risk, interest rate risk, credit risk and foreign currency risk, to generate profits from proprietary trading and to assist customers with their risk management objectives.

The notional amounts for derivative financial instruments express the dollar volume of the transactions; however, credit risk is much smaller. We perform credit reviews and enter into netting agreements to minimize the credit risk of foreign currency and interest rate risk management products. We enter into offsetting positions to reduce exposure to foreign exchange and interest rate risk.

Use of derivative financial instruments involves reliance on counterparties. Failure of a counterparty to honor its obligation under a derivative contract is a risk we assume whenever we engage in a derivative contract. In 2010 and 2009, counterparty default losses on both trading and hedging derivatives were $39 million and $4 million, respectively. Reserves for losses incurred in 2010 were established in prior years. As a result, these counterparty default losses did not impact income in 2010.

Hedging derivatives

We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations. For hedges of investment securities held for sale, deposits and long-term debt, the hedge documentation specifies the terms of the hedged items and the interest rate swaps and indicates that the derivative is hedging a fixed-rate item and is a fair value hedge, that the hedge exposure is to the changes in the fair value of the hedged item due to changes in benchmark interest rates, and that the strategy is to eliminate fair value variability by converting fixed-rate interest payments to LIBOR.

The securities hedged consist of sovereign debt, U.S. Treasury bonds and asset-backed securities, and generally had weighted average lives of 10 years or less at initial purchase. The asset-backed securities are callable six months prior to maturity. The swaps on the asset-backed securities are callable six months prior to maturity. The swaps on the sovereign debt and U.S. Treasury bonds are not callable. All of these securities are hedged with "pay fixed rate, receive variable rate" swaps of the same maturity, repricing and fixed rate coupon. At Dec. 31, 2010, $2.2 billion of securities were hedged with interest rate swaps that had notional values of $2.2 billion.

The fixed rate deposits hedged generally have original maturities of 5 to 11 years and are not callable. These deposits are hedged with receive fixed rate, pay variable rate swaps of similar maturity, repricing and fixed rate coupon. The swaps are not callable. At Dec. 31, 2010, $25 million of deposits were hedged with interest rate swaps that had notional values of $25 million.

The fixed rate long-term debt hedged generally have original maturities of 5 to 30 years. We issue both callable and non-callable debt. The non-callable debt is hedged with simple interest rate swaps similar to those described for deposits. Callable debt is hedged with callable swaps where the call dates of the swaps exactly match the call dates of the debt. At Dec. 31, 2010, $11.8 billion of debt was hedged with interest rate swaps that had notional values of $11.8 billion.

In addition, we enter into foreign exchange hedges. We use forward foreign exchange contracts with maturities of 12 months or less to hedge our Sterling, Euro and Indian Rupee foreign exchange exposure with respect to foreign currency forecasted revenue transactions in entities that have the U.S. dollar as their functional currency. As of Dec. 31, 2010, the hedged forecasted foreign currency transactions and designated forward foreign exchange contract hedges were $270 million (notional), with less than $1 million of pre-tax losses recorded in other comprehensive income. These losses will be reclassified to income or expense over the next twelve months.

We use forward foreign exchange contracts with remaining maturities of ten months or less as hedges against our exposure to Euro, Australian Dollar, Norwegian Krona, and Hong Kong Dollar foreign exchange exposure 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 Dec. 31, 2010, the hedged placements and their designated forward foreign exchange contract hedges were $6.8 billion (notional), with less than $1 million of pre-tax gain recorded in other comprehensive income. This gain will be reclassified to net interest revenue and other income over the next ten months.

Forward foreign exchange contracts are also used to hedge the value of our net investments in foreign subsidiaries. These forward foreign exchange contracts usually 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 Dec. 31, 2010, forward foreign exchange contracts with notional amounts totaling $4.8 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 Dec. 31, 2010, had a combined U.S. dollar equivalent value of $853 million.

Ineffectiveness related to derivatives and hedging relationships was recorded in income as follows:

Ineffectiveness	Year ended Dec. 31,		
(in millions)	**2010**	2009	2008
Fair value hedges on loans	**$ 0.1**	$(0.1)	$ 0.2
Fair value hedges of securities	**(4.2)**	0.1	(0.1)
Fair value hedges of deposits and long-term debt	**7.7**	2.2	28.4
Cash flow hedges	**0.1**	-	(0.1)
Other *(a)*	**(0.2)**	0.1	0.1
Total	**$ 3.5**	$ 2.3	$28.5

(a) Includes ineffectiveness recorded on foreign exchange hedges.

The following table summarizes the notional amount and credit exposure of our total derivative portfolio at Dec. 31, 2010 and 2009.

Impact of derivative instruments on the balance sheet	Notional value		Asset derivatives fair value *(a)*		Liability derivatives fair value *(a)*	
(in millions)	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009	**Dec. 31, 2010**	Dec. 31, 2009
Derivatives designated as hedging instruments *(b)*:						
Interest rate contracts	**$ 13,967**	$ 11,836	**$ 707**	$ 408	**$ 33**	$ 106
Foreign exchange contracts	**11,816**	3,645	**2**	-	**116**	97
Total derivatives designated as hedging instruments			**$ 709**	$ 408	**$ 149**	$ 203
Derivatives not designated as hedging instruments *(c)*:						
Interest rate contracts	**$1,090,718**	$1,030,847	**$ 15,651**	$ 13,620	**$ 16,275**	$ 14,084
Equity contracts	**6,905**	7,710	**449**	483	**380**	570
Credit contracts	**681**	806	**2**	3	**4**	6
Foreign exchange contracts	**315,050**	259,402	**3,661**	3,136	**3,707**	2,953
Total derivatives not designated as hedging instruments			**$ 19,763**	$ 17,242	**$ 20,366**	$ 17,613
Total derivatives fair value *(d)*			**$ 20,472**	$ 17,650	**$ 20,515**	$ 17,816
Effect of master netting agreements			**(15,827)**	(12,680)	**(15,181)**	(12,411)
Fair value after effect of master netting agreements			**$ 4,645**	$ 4,970	**$ 5,334**	$ 5,405

(a) Derivative financial instruments are reported net of cash collateral received and paid of $889 million and $243 million, respectively at Dec. 31, 2010 and $429 million and $160 million, respectively at Dec. 31, 2009.
(b) The fair value of asset derivatives and liability derivatives designated as hedging instruments is recorded as other assets and other liabilities, respectively, on the balance sheet.
(c) The fair value of asset derivatives and liability derivatives not designated as hedging instruments is recorded as trading assets and trading liabilities, respectively, on the balance sheet.
(d) Fair values are on a gross basis, before consideration of master netting agreements, as required by ASC 815.

At Dec. 31, 2010 approximately $ 399 billion (notional) of interest rate contracts will mature within one year, $ 442 billion between one and five years, and $ 264 billon after five years. At Dec. 31, 2010, approximately $ 313 billion (notional) of foreign exchange contracts will mature within one year, $ 7 billion between one and five years, and $ 7 billion after five years.

Impact of derivative instruments on the income statement
(in millions)

Derivatives in fair value hedging relationships	Location of gain (loss) recognized in income on derivatives	Amount of gain (loss) recognized in income on derivatives Year ended Dec. 31, 2010	2009	Location of gain (loss) recognized in income on hedged item	Amount of gain (loss) recognized in hedged item Year ended Dec. 31, 2010	2009
Interest rate contracts	Net interest revenue	**$370**	$(406)	Net interest revenue	**$(366)**	$408

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivative (effective portion) Year ended Dec. 31, 2010	2009	Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into income (effective portion) Year ended Dec. 31, 2010	2009	Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	Amount of gain or (loss) recognized in income on derivatives (ineffectiveness portion and amount excluded from effectiveness testing) Year ended Dec. 31, 2010	2009
Interest rate contracts	**$ -**	$ -	Net interest revenue	**$ -**	$26	Net interest revenue	**$-**	$-
FX contracts	**(7)**	-	Net interest revenue	**(6)**	-	Net interest revenue	**-**	-
FX contracts	**(134)**	(1)	Other revenue	**(135)**	6	Other revenue	**-**	-
FX contracts	**(1)**	-	Salary expense	**(1)**	-	Salary expense	**-**	-
Total	**$(142)**	$(1)		**$(142)**	$32		**$-**	$-

Derivatives in net investment hedging relationships	Amount of gain (loss) recognized in OCI on derivatives (effective portion) Year ended Dec. 31, 2010	2009	Location of gain (loss) reclassified from accumulated OCI into income (effective portion)	Amount of gain (loss) reclassified from accumulated OCI into income (effective portion) Year ended Dec. 31, 2010	2009	Location of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain (loss) Recognized in income on derivatives (Ineffectiveness portion and amount excluded from effectiveness testing) Year ended Dec. 31, 2010	2009
FX contracts	**$(52)**	$(298)	Net interest revenue	**$-**	$-	Other revenue	**$(0.2)**	$0.1

Trading activities (including trading derivatives)

Our trading activities are focused on acting as a market maker for our customers. The risk from these market-making activities and from our own positions is managed by our traders and limited in total exposure as described below.

We manage trading risk through a system of position limits, a VAR methodology based on Monte Carlo simulations, stop loss advisory triggers, and other market sensitivity measures. Risk is monitored and reported to senior management by a separate unit on a daily basis. Based on certain assumptions, the VAR methodology is designed to capture the potential overnight pre-tax dollar loss from adverse changes in fair values of all trading positions. The calculation assumes a one-day holding period for most instruments, utilizes a 99% confidence level, and incorporates the non-linear characteristics of options. The VAR model is one of several statistical models used to develop economic capital results, which is allocated to lines of business for computing risk-adjusted performance.

As the VAR methodology does not evaluate risk attributable to extraordinary financial, economic or other occurrences, the risk assessment process includes a number of stress scenarios based upon the risk factors in the portfolio and management's assessment of market conditions. Additional stress scenarios based upon historic market events are also performed. Stress tests, by their design, incorporate the impact of reduced liquidity and the breakdown of observed correlations. The results of these stress tests are reviewed weekly with senior management.

Revenue from foreign exchange and other trading revenue included the following:

Foreign exchange and other trading revenue *(in millions)*	**2010**	2009	2008
Foreign exchange	**$787**	$ 850	$1,197
Fixed income	**80**	242	147
Credit derivatives *(a)*	**(7)**	(84)	30
Other	**26**	28	88
Total	**$886**	$1,036	$1,462

(a) *Used as economic hedges of loans.*

Foreign exchange includes income from purchasing and selling foreign currencies and currency forwards, futures, and options. Fixed income reflects results from futures and forward contracts, interest rate swaps, foreign currency swaps, options and fixed income securities. Credit derivatives include revenue from credit default swaps. Other primarily includes income from equity securities and equity derivatives.

Counterparty credit risk and collateral

We assess credit risk of our counterparties through regular periodic examination of their financial statements, confidential communication with the management of those counterparties and regular monitoring of publicly available credit rating information. This and other information is used to develop proprietary credit rating metrics used to assess credit quality.

Collateral requirements are determined after a comprehensive review of the credit quality of each counterparty. Collateral is generally held 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 23 of the Notes to Consolidated Financial Statements.

Disclosure of contingent features in over-the-counter ("OTC") derivative instruments

Certain of the BNY Mellon's OTC derivative contracts and/or collateral agreements contain provisions that may require us to take certain actions if its public debt rating fell to a certain level. Early termination provisions, or "close-out" agreements in those contracts could trigger immediate payment of outstanding contracts that are in net liability positions. Certain collateral agreements would require us to immediately post additional collateral to cover some or all of BNY Mellon's liabilities to a counterparty.

The following table shows the fair value of contracts falling under early termination provisions that were in net liability positions as of Dec. 31, 2010 for three key ratings triggers:

If BNY Mellon's rating was changed to:	Potential close-out exposures (fair value) *(a)*
A3/A-	$ 442 million
Baa2/BBB	$ 915 million
Bal/BB+	$1,548 million

(a) The change between rating categories is incremental, not cumulative.

Additionally, if BNY Mellon's debt rating had fallen below investment grade on Dec. 31, 2010, existing collateral arrangements would have required us to have posted an additional $971 million of collateral.

Note 27—Review of businesses

We have an internal information system that produces performance data for our seven businesses along product and service lines. The following discussion of our businesses satisfies the disclosure requirements for ASC 280, *Segment Reporting*.

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.

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 of the Notes to Consolidated Financial Statements.

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.

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

We provide data for seven businesses, with certain businesses combined into groups as shown below:

Group of businesses/Business	Primary types of revenue
Asset and Wealth Management Group	
Asset Management business	• Asset and wealth management fees from: Mutual funds Institutional clients Private clients Performance fees • Distribution and servicing fees
Wealth Management business	• Wealth management fees from high-net-worth individuals and families, endowments and foundations and related entities.
Institutional Services Group	
Asset Servicing business	• Asset servicing fees, including: Institutional trust and custody fees Broker-dealer services Securities lending • Foreign exchange
Issuer Services business	• Issuer services fees, including: Corporate trust Depositary receipts Employee investment plan services Shareowner services
Clearing Services business	• Clearing services fees, including: Broker-dealer services Registered investment advisor services
Treasury Services business	• Treasury services fees, including: Global payment services Working capital solutions • Financing-related fees
Other Businesses	• Leasing operations • 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 the Asset Servicing business.
- 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.
- Special litigation reserves is a corporate level item and is therefore recorded in the Other businesses.

- Management of the investment securities portfolio is a shared service contained in the Other businesses. As a result, gains and losses associated with the valuation of the securities portfolio are included in the Other businesses.
- 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, the higher yield related to the restructured investment securities portfolio has been included in the results of the businesses.
- Support agreement charges are recorded in the business in which the charges occurred.
- The restructuring charges recorded in 2010, 2009 and 2008 resulted from corporate initiatives and therefore were recorded in the Other businesses.
- Balance sheet assets and liabilities and their related income or expense are specifically assigned to each business. Businesses with a net liability position have been allocated assets.
- Goodwill and intangible assets are reflected within individual businesses.
- M&I expenses are corporate level items and are therefore recorded in the Other businesses.

Total revenue includes approximately $2.1 billion in 2010, $1.6 billion in 2009 and $2.0 billion in 2008, of international operations domiciled in the U.K. which is 15%, 21% and 14% of total revenue, respectively.

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

For the year ended Dec. 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**	**Total Continuing Operations**
Fee and other revenue	**$ 2,644** *(a)*	**$ 590**	**$ 3,234**	**$ 3,809**	**$ 1,576**	**$ 1,152**	**$ 841**	**$ 7,378**	**$ 279**	**$ 10,891** *(a)*
Net interest revenue	**(1)**	**227**	**226**	**864**	**903**	**368**	**632**	**2,767**	**(68)**	**2,925**
Total revenue	**2,643**	**817**	**3,460**	**4,673**	**2,479**	**1,520**	**1,473**	**10,145**	**211**	**13,816**
Provision for credit losses	**-**	**2**	**2**	**-**	**-**	**-**	**-**	**-**	**9**	**11**
Noninterest expense	**2,082**	**611**	**2,693**	**3,399**	**1,354**	**1,138**	**769**	**6,660**	**817**	**10,170**
Income before taxes	**$ 561** *(a)*	**$ 204**	**$ 765**	**$ 1,274**	**$ 1,125**	**$ 382**	**$ 704**	**$ 3,485**	**$ (615)**	**$ 3,635** *(a)*
Pre-tax operating margin *(b)*	**21%**	**25%**	**22%**	**27%**	**45%**	**25%**	**48%**	**34%**	**N/M**	**26%**
Average assets	**$26,307**	**$10,618**	**$36,925**	**$66,678**	**$51,623**	**$21,361**	**$26,519**	**$166,181**	**$34,330**	**$237,436** *(c)*

(a) Total fee and other revenue and income before taxes for 2010 includes income from consolidated asset management funds of $226 million net of income attributable to noncontrolling interests of $59 million. The net of these income statement line items of $167 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 $404 million for 2010, consolidated average assets were $237,840 million.

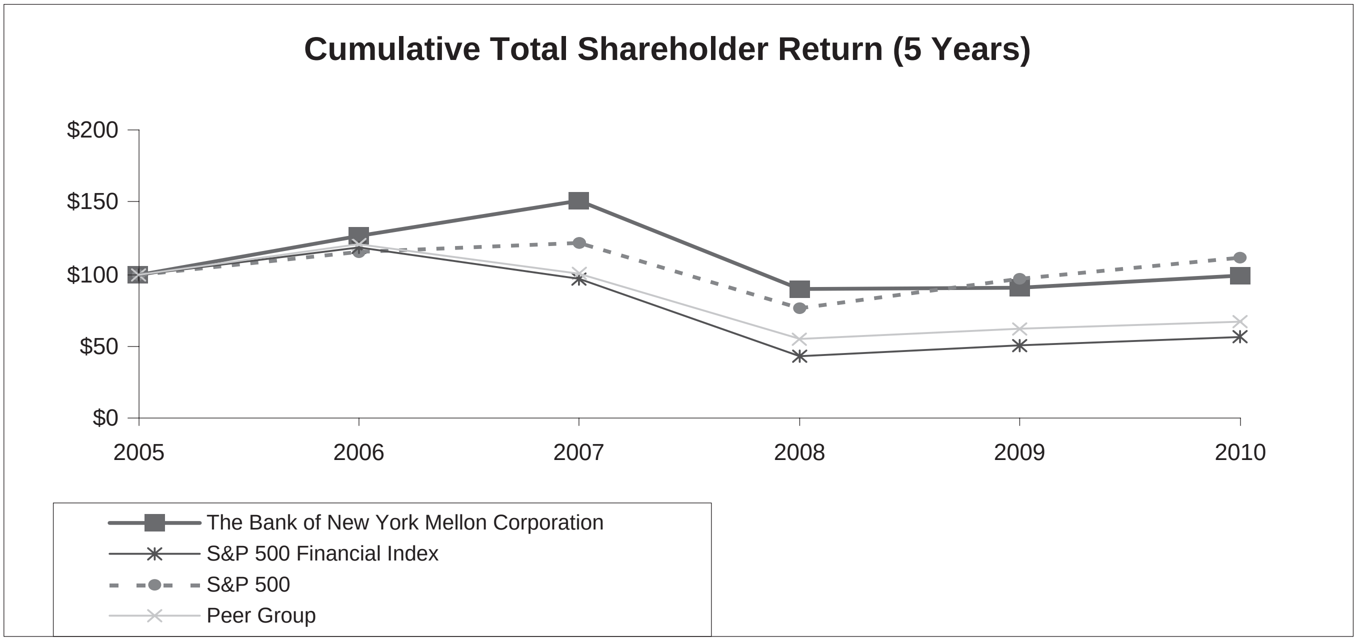
For the year ended Dec. 31, 2009

(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	Total Continuing Operations
Fee and other revenue	$ 2,247	$ 578	$ 2,825	$ 3,406	$ 1,617	$ 1,190	$ 835	$ 7,048	$ (5,134)	$ 4,739
Net interest revenue	32	194	226	894	768	340	613	2,615	74	2,915
Total revenue	2,279	772	3,051	4,300	2,385	1,530	1,448	9,663	(5,060)	7,654
Provision for credit losses	-	1	1	-	-	-	-	-	331	332
Noninterest expense	1,915	583	2,498	2,956	1,305	1,021	772	6,054	978	9,530
Income before taxes	$ 364	$ 188	$ 552	$ 1,344	$ 1,080	$ 509	$ 676	$ 3,609	$ (6,369)	$ (2,208)
Pre-tax operating margin *(a)*	16%	24%	18%	31%	45%	33%	47%	37%	N/M	N/M
Average assets	$12,564	$9,276	$21,840	$60,842	$50,752	$18,455	$25,971	$156,020	$32,079	$209,939 *(b)*

(a) Income before taxes divided by total revenue.

(b) Including average assets of discontinued operations of $2,188 million in 2009, consolidated average assets were $212,127 million.

Performance Graph



	2005	2006	2007	2008	2009	2010
The Bank of New York Mellon Corporation	$100.0	$126.9	$151.4	$90.3	$91.0	**$ 99.6**
S&P 500 Financial Index	100.0	119.2	97.1	43.5	50.9	**57.1**
S&P 500	100.0	115.8	122.2	77.0	97.3	**112.0**
Peer Group	100.0	121.1	101.0	55.4	62.5	**67.6**

This graph shows The Bank of New York Mellon Corporation's cumulative total shareholder returns over the five-year period from Dec. 31, 2005 to Dec. 31, 2010. The graph reflects total shareholder returns for The Bank of New York Company, Inc. from Dec. 31, 2005 to June 29, 2007, and for The Bank of New York Mellon Corporation from July 2, 2007 to Dec. 31, 2010. June 29, 2007 was the last day of trading on the NYSE of The Bank of New York Company, Inc. common stock and July 2, 2007 was the first day of trading on the NYSE of The Bank of New York Mellon Corporation common stock. We are showing combined The Bank of New York Company, Inc.—The Bank of New York Mellon Corporation shareholder returns because The Bank of New York Mellon Corporation does not have a five-year history as a public company. Our peer group is composed of asset managers and institutional service providers that represent our primary competitors. We also utilize the S&P 500 Financial Index as a benchmark against our performance. The graph also shows the cumulative total returns for the same five-year period of the S&P 500 Index, the S&P 500 Financial Index, as well as our peer group listed below. The comparison assumes a $100 investment on Dec. 31, 2005 in The Bank of New York Company, Inc. common stock (which was converted on a 0.9434 for one basis into The Bank of New York Mellon Corporation common stock on July 1, 2007), in the S&P 500 Financial Index, in the S&P 500 Index and in the peer group detailed below and assumes that all dividends were reinvested.

Peer Group*		
American Express Company	Citigroup Inc.	Prudential Financial, Inc.
Bank of America Corporation	JPMorgan Chase & Co.	State Street Corporation
BlackRock, Inc.	Northern Trust Corporation	U.S. Bancorp
The Charles Schwab Corporation	The PNC Financial Services Group, Inc.	Wells Fargo & Company

* Returns are weighted by market capitalization at the beginning of the measurement period.