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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2012

or

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

Commission File No. 000-52710

THE BANK OF NEW YORK MELLON CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

Class	Outstanding as of June 30, 2012
Common Stock, $0.01 par value	1,181,297,952

Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 for additional information on the first quarter 2012 interim goodwill impairment test of the Asset Management business.

Consolidated balance sheet review

At June 30, 2012, total assets were $330 billion compared with $325 billion at Dec. 31, 2011. The increase in consolidated total assets resulted from an increase in client deposits. Deposits totaled $221 billion at June 30, 2012 and $219 billion at Dec. 31, 2011. At June 30, 2012, total interest-bearing deposits were 54% of total interest-earning assets. Total assets averaged $305 billion in the second quarter of 2012 compared with $278 billion in the second quarter of 2011 and $301 billion in the first quarter of 2012. The fluctuations compared with both prior periods primarily reflect an increase in the levels of client deposits. Total deposits averaged $193 billion in the second quarter of 2012, $169 billion in the second quarter of 2011 and $192 billion in the first quarter of 2012.

At June 30, 2012, we had approximately $48 billion of liquid funds and $81 billion of cash (including approximately $76 billion of overnight deposits with the Federal Reserve and other central banks) for a total of approximately $129 billion of available funds. This compares with available funds of $135 billion at Dec. 31, 2011. Our percentage of liquid assets to total assets was 39% at June 30, 2012 compared with 42% at Dec. 31, 2011. The decreases in available funds and liquid assets to total assets were due to increased investment in securities and higher loan levels. At June 30, 2012, of our $48 billion in liquid funds, $40 billion are placed in interest-bearing deposits with large, highly rated global financial institutions with a weighted-average life to maturity of 47 days. Of the $40 billion, $7.8 billion was placed with banks in the Eurozone.

Investment securities were $93 billion, or 28% of total assets, at June 30, 2012 compared with $82 billion, or 25% of total assets, at Dec. 31, 2011. The increase primarily reflects larger investments in agency RMBS and state and political subdivision securities, as well as an improvement in the unrealized gain of our investment securities portfolio.

Loans were $45 billion, or 14% of total assets, at June 30, 2012 compared with $44 billion, or 14% of total assets, at Dec. 31, 2011. The increase in loan levels primarily reflects higher overdrafts and margin loans.

Long-term debt decreased to $19.5 billion at June 30, 2012 from $19.9 billion at Dec. 31, 2011, primarily due to the maturity of $1.4 billion of senior debt and $300 million of subordinated debt as well as the redemption of $500 million of junior subordinated debentures, partially offset by the issuance of $1.75 billion of senior debt in the first six months of 2012.

Total shareholders’ equity applicable to BNY Mellon was $34.5 billion at June 30, 2012 and $33.4 billion at Dec. 31, 2011. The increase in total shareholders’ equity primarily reflects earnings retention and an increase in the valuation of our investment securities portfolio, partially offset by share repurchases. Additionally, in the second quarter of 2012, we issued $500 million of non-cumulative perpetual preferred stock which qualifies as Tier 1 capital under the recently released NPRs.

BNY Mellon, through its involvement in the Fixed Income Clearing Corporation, settles government securities transactions on a net basis for payment and delivery through the Fedwire system. As a result, at June 30, 2012, the assets and liabilities of BNY Mellon were reduced by $17 million for the netting of repurchase agreements and reverse repurchase agreement transactions executed with the same counterparty under standardized Master Repurchase Agreements.

Exposure in Ireland, Italy, Spain and Portugal

The following tables present our on- and off-balance sheet exposure in Ireland, Italy, Spain, and Portugal at June 30, 2012 and Dec. 31, 2011. We have provided expanded disclosure on these countries as they have experienced particular market focus on credit quality and are countries experiencing economic concerns. Where appropriate, we are offsetting the risk associated with the gross exposure in these countries with collateral that has been pledged, which primarily consists of cash or marketable securities, or by transferring the risk to a third-party guarantor in another country.

BNY Mellon has a limited economic interest in the performance of assets of consolidated investment management funds, and therefore they are excluded from this presentation. The liabilities of consolidated investment management funds represent the interest of the noteholders of the funds and are solely dependent on the value of the assets. Any loss in the value of assets of consolidated investment management funds would be incurred by the fund's noteholders.

At June 30, 2012 and Dec. 31, 2011, BNY Mellon had no exposure to Greece and no sovereign exposure to the countries disclosed below.

Our exposure to Ireland is principally related to Irish-domiciled investment funds. Servicing provided to these funds and fund families may result in overdraft exposure.

See "Risk management" in the 2011 Annual Report for additional information on how our exposures are managed.

Exposure in the tables below reflects the country of operations and risk of the immediate counterparty.

On- and off-balance sheet exposure at June 30, 2012

(in millions)	**Ireland**	**Italy**	**Spain**	**Portugal**	**Total**
On-balance sheet exposure					
Gross:					
Interest-bearing deposits with banks *(a)*	$ 96	$ 192	$ 2	$ -	$ 290
Investment securities (primarily European Floating Rate Notes) *(b)*	189	137	25	-	351
Loans and leases *(c)*	324	3	5	-	332
Trading assets *(d)*	44	39	16	1	100
Total gross on-balance sheet exposure	653	371	48	1	1,073
Less:					
Collateral	77	35	7	1	120
Guarantees	-	2	1	-	3
Total collateral and guarantees	77	37	8	1	123
Total net on-balance sheet exposure	**$ 576**	**$ 334**	**$ 40**	**$ -**	**$ 950**
Off-balance sheet exposure					
Gross:					
Lending-related commitments *(e)*	$ 98	$ -	$ -	$ -	$ 98
Letters of credit *(f)*	74	4	14	-	92
Total gross off-balance sheet exposure	172	4	14	-	190
Less:					
Collateral	90	-	14	-	104
Total net off-balance sheet exposure	**$ 82**	**$ 4**	**$ -**	**$ -**	**$ 86**
Total exposure:					
Total gross on- and off-balance sheet exposure	**$ 825**	**$ 375**	**$ 62**	**$ 1**	**$ 1,263**
Less: Total collateral and guarantees	**167**	**37**	**22**	**1**	**227**
Total net on- and off-balance sheet exposure	**$ 658**	**$ 338**	**$ 40**	**$ -**	**$ 1,036**

(a) Interest-bearing deposits with banks represent a $130 million placement with a financial institution in Italy, a $96 million placement with an Irish subsidiary of a UK holding company and $64 million of nostro accounts related to our custody business.

(b) Represents $326 million, fair value, of residential mortgage-backed securities located in Ireland, Italy and Spain, of which 62% were investment grade, $22 million, fair value, of investment grade asset-backed CLOs located in Ireland, and $3 million, fair value, of money market fund investments located in Ireland.

(c) Loans and leases include $263 million of overdrafts primarily to Irish-domiciled investment funds resulting from our custody business, a $66 million commercial lease to an Irish company, which was fully collateralized by U.S. Treasuries and $3 million of leases to airline manufacturing companies which are under joint and several guarantee arrangements, with guarantors outside of the Eurozone. There is no impairment associated with these loans and leases.

(d) Trading assets represent over-the-counter mark-to-market on foreign exchange and interest rate receivables, net of master netting agreements. Trading assets include $44 million of receivables primarily due from Irish-domiciled investment funds and $56 million of receivables due from financial institutions in Italy, Spain and Portugal. Cash collateral on the trading assets totaled $11 million in Ireland, $35 million in Italy, $7 million in Spain and $1 million in Portugal.

(e) Lending-related commitments represent $98 million to an insurance company, collateralized by $23 million of marketable securities.

(f) Represents $74 million of letters of credit extended to an insurance company in Ireland, collateralized by $67 million of marketable securities, a $4 million letter of credit extended to a financial institution in Italy and a $14 million letter of credit extended to an insurance company in Spain, fully collateralized by marketable securities.

On- and off-balance sheet exposure at Dec. 31, 2011

(in millions)	Ireland	Italy	Spain	Portugal	Total
On-balance sheet exposure					
Gross:					
Interest-bearing deposits with banks *(a)*	$ 97	$ 24	$ 4	$ -	$ 125
Investment securities (primarily European Floating Rate Notes) *(b)*	208	155	27	-	390
Loans and leases *(c)*	411	3	4	-	418
Trading assets *(d)*	117	53	16	3	189
Total gross on-balance sheet exposure	833	235	51	3	1,122
Less:					
Collateral	102	39	7	3	151
Guarantees	-	3	1	-	4
Total collateral and guarantees	102	42	8	3	155
Total net on-balance sheet exposure	**$ 731**	**$ 193**	**$ 43**	**$ -**	**$ 967**
Off-balance sheet exposure					
Gross:					
Lending-related commitments *(e)*	$ 273	$ -	$ -	$ -	$ 273
Letters of credit *(f)*	-	2	14	-	16
Total gross off-balance sheet exposure	273	2	14	-	289
Less:					
Collateral	190	-	14	-	204
Total net off-balance sheet exposure	**$ 83**	**$ 2**	**$ -**	**$ -**	**$ 85**
Total exposure:					
Total gross on- and off-balance sheet exposure	**$ 1,106**	**$ 237**	**$ 65**	**$ 3**	**$ 1,411**
Less: Total collateral and guarantees	**292**	**42**	**22**	**3**	**359**
Total net on- and off-balance sheet exposure	**$ 814**	**$ 195**	**$ 43**	**$ -**	**$ 1,052**

(a) Interest-bearing deposits with banks represent a $96 million placement with an Irish subsidiary of a UK holding company and $29 million of nostro accounts related to our custody business.

(b) Represents $364 million, fair value, of residential mortgage-backed securities, of which 97% were investment grade, $23 million, fair value, of investment grade asset-backed CLOs, and $3 million, fair value, of money market fund investments located in Ireland.

(c) Loans and leases include $335 million of overdrafts primarily to Irish domiciled investment funds resulting from our custody business, a $65 million commercial lease fully collateralized by U.S. Treasuries, $15 million of financial institution loans, which were collateralized by marketable securities and $4 million of leases to airline manufacturing companies which are under joint and several guarantee arrangements, with guarantors outside of the Eurozone. There is no impairment associated with these loans and leases.

(d) Trading assets represent over-the-counter mark-to-market on foreign exchange and interest rate receivables, net of master netting agreements. Trading assets include $117 million of receivables due from Irish domiciled investment funds and $72 million due from financial institutions in Italy, Spain and Portugal. Cash collateral on the trading assets totaled $22 million in Ireland, $39 million in Italy, $7 million in Spain and $3 million in Portugal.

(e) Lending-related commitments represent $100 million to an asset manager fully collateralized by marketable securities, and $173 million to an insurance company, collateralized by $90 million of marketable securities.

(f) Represents a $14 million letter of credit extended to an insurance company in Spain fully collateralized by marketable securities. Exposure in Italy represents a $2 million letter of credit extended to a financial institution.

Investment securities

In the discussion of our investment securities portfolio, we have included certain credit ratings information because the information indicates the degree of credit risk to which we are exposed, and significant changes in ratings classifications for our investment portfolio could indicate increased credit risk for us and could be accompanied by a reduction in the fair value of our investment securities portfolio.

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

Investment securities portfolio

(dollars in millions)	March 31, 2012 Fair value	2Q12 change in unrealized gain/(loss)	June 30, 2012 Amortized cost	June 30, 2012 Fair value	Fair value as a % of amortized cost *(a)*	Unrealized gain/(loss)	Ratings AAA/ AA-	Ratings A+/ A-	Ratings BBB+/ BBB-	Ratings BB+ and lower	Ratings Not rated
Agency RMBS	$ 34,538	$ 187	$ 38,598	$ 39,441	102%	$ 843	100%	-%	-%	-%	-%
U.S. Treasury securities	15,173	43	14,777	15,073	102	296	100	-	-	-	-
Sovereign debt/ sovereign guaranteed *(b)*	12,171	(57)	8,782	8,935	102	153	100	-	-	-	-
Non-agency RMBS *(c)*	3,232	(72)	2,745	3,037	67	292	1	1	2	96	-
Non-agency RMBS	1,787	41	1,900	1,692	81	(208)	17	15	11	57	-
European floating rate notes *(d)*	3,405	37	4,337	4,053	92	(284)	79	15	3	3	-
Commercial MBS	3,161	(2)	2,905	3,012	104	107	82	16	2	-	-
State and political subdivisions	4,067	32	5,640	5,684	101	44	84	14	1	1	-
Foreign covered bonds *(e)*	3,207	22	3,870	3,928	101	58	99	1	-	-	-
Corporate bonds	1,696	3	1,571	1,628	104	57	17	73	9	1	-
CLO	1,118	(1)	1,025	1,013	99	(12)	100	-	-	-	-
U.S. Government agency debt	1,108	2	1,066	1,097	103	31	100	-	-	-	-
Consumer ABS	447	5	1,051	1,060	101	9	77	22	-	1	-
Other *(f)*	3,093	18	3,285	3,339	102	54	31	60	2	1	6
Total investment securities	$ 88,203 *(g)*	$ 258	$ 91,552	$ 92,992 *(g)*	99%	$ 1,440	89%	6%	1%	4%	-%

(a) Amortized cost before impairments.
(b) Primarily comprised of exposure to UK, France, Germany and Netherlands.
(c) These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these RMBS would receive higher credit ratings if these ratings incorporated, as additional credit enhancement, the difference between the written-down amortized cost and the current face amount of each of these securities.
(d) Includes RMBS, commercial MBS and other securities. Primarily comprised of exposure to UK and Netherlands.
(e) Primarily comprised of exposure to Germany, Canada and UK.
(f) Includes commercial paper of $2.0 billion, fair value, and money market funds of $918 million, fair value, at June 30, 2012.
(g) Includes net unrealized losses on derivatives hedging securities available-for-sale of $20 million at March 31, 2012 and $417 million at June 30, 2012.

The fair value of our investment securities portfolio was $93.0 billion at June 30, 2012 compared with $81.7 billion at Dec. 31, 2011. The increase in the fair value of the investment securities portfolio primarily reflects larger investments in agency RMBS and state and political subdivision securities, as well as an improvement in the unrealized gain of our investment securities. In the second quarter of 2012, we received $246 million of paydowns and sold $24 million of sub-investment grade securities.

In the second quarter of 2012, we reassessed the classification of certain Agency RMBS and reclassified $2.8 billion at fair value of our available-for-sale securities to held-to-maturity. The related unrealized pre-tax gain on these securities was $117 million at June 30, 2012.

At June 30, 2012, the total investment securities portfolio had an unrealized pre-tax gain of $1.4 billion compared with $1.2 billion at March 31, 2012. The improvement in the valuation of the investment securities portfolio was primarily driven by a decline in market interest rates. The unrealized net of tax gain on our investment securities available-for-sale portfolio included in accumulated other comprehensive income was $784 million at June 30, 2012 compared with $654 million at March 31, 2012.

At June 30, 2012, 89% of the securities in our portfolio were rated AAA/AA- compared with 88% at March 31, 2012.

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

At June 30, 2012, we had $1.0 billion of accretable discount related to the restructuring of the investment securities portfolio. The discount related to these securities had a remaining average life of approximately 4.4 years. The accretion of discount related to these securities increased net interest revenue and was recorded on a level yield basis. The discount accretion totaled $74 million in the second quarter of 2012, $98 million in the second quarter of 2011 and $81 million in the first quarter of 2012.

Also, at June 30, 2012, we had $2.3 billion of net amortizable purchase premium relating to investment securities with a remaining average life of approximately 4.3 years. For these securities, the amortization of net premium decreased net interest revenue and was recorded on a level yield basis. We recorded net premium amortization of $118 million in the second quarter of 2012, $60 million in the second quarter of 2011 and $109 million in the first quarter of 2012.

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

Net securities gains				**Year-to-date**	
(in millions)	**2Q12**	1Q12	2Q11	**2012**	2011
U.S. Treasury	**$ 44**	$ 38	$ 41	**$ 82**	$ 41
Sovereign debt	**61**	7	-	**68**	-
FDIC-insured debt	**-**	10	-	**10**	-
Corporate bonds	**7**	2	-	**9**	-
Prime RMBS	**(1)**	(1)	-	**(2)**	9
Alt-A RMBS	**(3)**	(10)	(1)	**(13)**	4
Trust preferred	**(18)**	-	-	**(18)**	-
European floating rate notes	**(22)**	(1)	(12)	**(23)**	(15)
Subprime RMBS	**(23)**	(3)	(6)	**(26)**	(12)
Agency RMBS	**-**	-	8	**-**	8
Other	**5**	(2)	18	**3**	18
Net securities gains (losses)	**$ 50**	$ 40	$ 48	**$ 90**	$ 53

On a quarterly basis, we perform our impairment analysis using several factors, including projected loss severities and default rates. In the second quarter of 2012, this analysis resulted in approximately $67 million of credit losses primarily on subprime RMBS, European floating rate notes and trust preferred securities. If we were to increase or decrease each of our projected loss severities and default rates by 100 basis points on each of the positions in our Alt-A, subprime and prime RMBS portfolios, including the securities previously held by the Grantor Trust we established in connection with the restructuring of our investment securities portfolio in 2009, credit-related impairment charges on these securities would have increased $13 million (pre-tax) or decreased $1 million (pre-tax) in the second quarter of 2012. See Note 4 of the Notes to Consolidated Financial Statements for the projected weighted-average default rates and loss severities.

At June 30, 2012, the investment securities portfolio includes $83 million of assets not accruing interest. These securities are held at market value.

The following table shows the fair value of the European floating rate notes by geographical location at June 30, 2012. The unrealized loss on these securities was $284 million at June 30, 2012, an improvement of 18% compared with $347 million at Dec. 31, 2011.

European floating rate notes at June 30, 2012 *(a)*			
(in millions)	RMBS	Other	Total fair value
United Kingdom	$ 1,758	$ 259	$ 2,017
Netherlands	1,476	46	1,522
Ireland	164	21	185
Italy	137	-	137
Australia	85	-	85
Germany	1	68	69
Spain	25	-	25
France	4	9	13
Total	**$ 3,650**	**$ 403**	**$ 4,053**

(a) 79% of these securities are in the AAA to AA- ratings category.

See Note 14 of the Notes to Consolidated Financial Statements for the detail of securities by level in the fair value hierarchy.

Loans

Total exposure – consolidated	**June 30, 2012**			Dec. 31, 2011		
(in billions)	**Loans**	**Unfunded commitments**	**Total exposure**	Loans	Unfunded commitments	Total exposure
Non-margin loans:						
Financial institutions	**$ 10.5**	**$ 14.6**	**$ 25.1**	$ 11.1	$ 15.5	$ 26.6
Commercial	**1.4**	**17.3**	**18.7**	1.3	16.3	17.6
Subtotal institutional	**11.9**	**31.9**	**43.8**	12.4	31.8	44.2
Wealth management loans and mortgages	**7.9**	**1.6**	**9.5**	7.3	1.5	8.8
Commercial real estate	**1.6**	**1.9**	**3.5**	1.5	1.5	3.0
Lease financing	**2.5**	**-**	**2.5**	2.6	-	2.6
Other residential mortgages	**1.8**	**-**	**1.8**	1.9	-	1.9
Overdrafts	**5.7**	**-**	**5.7**	4.8	-	4.8
Other	**0.5**	**-**	**0.5**	0.7	-	0.7
Subtotal non-margin loans	**31.9**	**35.4**	**67.3**	31.2	34.8	66.0
Margin loans	**13.5**	**0.7**	**14.2**	12.8	0.7	13.5
Total	**$ 45.4**	**$ 36.1**	**$ 81.5**	$ 44.0	$ 35.5	$ 79.5

At June 30, 2012, total exposures were $81.5 billion, an increase of 3% from $79.5 billion at Dec. 31, 2011, primarily reflecting higher commercial exposure, overdrafts, wealth management loans and mortgages and commercial real estate exposure, partially offset by lower exposure in the financial institutions portfolio.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios make up 54% of our total lending exposure. Additionally, a substantial portion of our overdrafts relate to financial institutions and commercial customers.

Financial institutions

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

Financial institutions portfolio exposure	**June 30, 2012**					Dec. 31, 2011		
(dollar amounts in billions)	**Loans**	**Unfunded commitments**	**Total exposure**	**% Inv grade**	**% due <1 yr**	Loans	Unfunded commitments	Total exposure
Banks	**$ 5.5**	**$ 1.7**	**$ 7.2**	**81%**	**95%**	$ 6.3	$ 1.9	$ 8.2
Securities industry	**3.5**	**2.0**	**5.5**	**92**	**95**	3.8	2.6	6.4
Insurance	**0.2**	**4.4**	**4.6**	**98**	**30**	0.1	4.6	4.7
Asset managers	**1.1**	**3.5**	**4.6**	**99**	**76**	0.8	3.2	4.0
Government	**-**	**1.7**	**1.7**	**95**	**20**	-	1.6	1.6
Other	**0.2**	**1.3**	**1.5**	**96**	**57**	0.1	1.6	1.7
Total	**$ 10.5**	**$ 14.6**	**$ 25.1**	**92%**	**72%**	$ 11.1	$ 15.5	$ 26.6

The financial institutions portfolio exposure was $25.1 billion at June 30, 2012 compared with $26.6 billion at Dec. 31, 2011. The decrease primarily reflects lower exposure to banks and broker-dealers, partially offset by increased exposure to asset managers.

Financial institution exposures are high-quality, with 92% meeting the investment grade equivalent criteria of our rating system at June 30, 2012. These exposures are generally short-term. Of these exposures, 72% expire within one year, and 34% expire within 90 days. In addition, 42% of the financial institution exposure is secured. For example, securities industry and asset managers often borrow against marketable securities held in custody.

For ratings of non-U.S. counterparties, as a conservative measure, our internal credit rating classification generally caps the rating based upon the sovereign rating of the country where the counterparty resides regardless of the credit rating of the counterparty or the underlying collateral.

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

The asset manager portfolio exposures are high-quality, with 99% meeting our investment grade equivalent ratings criteria as of June 30, 2012.

These exposures are generally short-term liquidity facilities, with the vast majority to regulated mutual funds.

Commercial

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

Commercial portfolio exposure	**June 30, 2012**					Dec. 31, 2011		
(dollar amounts in billions)	**Loans**	**Unfunded commitments**	**Total exposure**	**% Inv grade**	**% due <1 yr**	Loans	Unfunded commitments	Total exposure
Services and other	**$ 0.7**	**$ 5.4**	**$ 6.1**	**92%**	**21%**	$ 0.5	$ 4.5	$ 5.0
Manufacturing	**0.3**	**5.4**	**5.7**	**90**	**10**	0.3	5.7	6.0
Energy and utilities	**0.3**	**4.9**	**5.2**	**97**	**6**	0.3	4.8	5.1
Media and telecom	**0.1**	**1.6**	**1.7**	**90**	**4**	0.2	1.3	1.5
Total	**$ 1.4**	**$ 17.3**	**$ 18.7**	**93%**	**12%**	$ 1.3	$ 16.3	$ 17.6

The commercial portfolio exposure increased 6% to $18.7 billion at June 30, 2012 from $17.6 billion at Dec. 31, 2011, primarily reflecting an increase in exposure in the services and other portfolio.

Our goal is to maintain a predominantly investment grade portfolio. The table below summarizes the percent of the financial institutions and commercial exposures that are investment grade.

Percentage of the portfolios that are investment grade	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	**June 30, 2012**
Financial institutions	91%	92%	93%	92%	**92%**
Commercial	91%	91%	91%	92%	**93%**

Our credit strategy is to focus on investment grade names to support cross-selling opportunities, avoid single name/industry concentrations and exit high-risk portfolios. Each customer is assigned an internal rating grade, which is mapped to an external rating agency grade equivalent based upon a number of dimensions which are continually evaluated and may change over time. The execution of our strategy has resulted in 92% of our financial institutions portfolio and 93% of our commercial portfolio rated as investment grade at June 30, 2012.

Wealth management loans and mortgages

Wealth management loans and mortgages are primarily composed of loans to high-net-worth individuals, which are secured by marketable securities and/or residential property. Wealth management mortgages are primarily interest-only adjustable rate mortgages with an average loan to value ratio of 63% at origination. In the wealth management portfolio, 1% of the mortgages were past due at June 30, 2012.

At June 30, 2012, the private wealth mortgage portfolio was comprised of the following geographic concentrations: New York – 23%; California –18%; Massachusetts – 17%; Florida – 8%; and other – 34%.

Commercial real estate

Our commercial real estate facilities are focused on experienced owners and are structured with moderate leverage based on existing cash flows. Our commercial real estate lending activities include both construction facilities and medium-term loans. Our client base consists of experienced developers and long-term holders of real estate assets. Loans are approved on the basis of existing or projected cash flow, and supported by appraisals and knowledge of local market conditions. Development loans are structured with moderate leverage, and in most instances, involve some level of recourse to the developer. Our commercial real estate exposure totaled $3.5 billion at June 30, 2012 and $3.0 billion at Dec. 31, 2011.

At June 30, 2012, 58% of our commercial real estate portfolio was secured. The secured portfolio is diverse by project type, with 60% secured by residential buildings, 19% secured by office buildings, 11% secured by retail properties and 10% secured by other categories. Approximately 97% of the unsecured portfolio is allocated to investment grade real estate investment trusts ("REITs") under revolving credit agreements.

At June 30, 2012, our commercial real estate portfolio was comprised of the following geographic concentrations: New York metro – 44%; investment grade REITs – 41%; and other – 15%.

Lease financings

The leasing portfolio exposure totaled $2.5 billion and includes $188 million of airline exposures at June 30, 2012 compared with $2.6 billion of leasing exposures, including $197 million of airline exposures, at Dec. 31, 2011. At June 30, 2012, approximately 88% of the leasing exposure was investment grade.

At June 30, 2012, the $2.3 billion non-airline lease financing portfolio consisted of exposures backed by well-diversified assets, primarily large-ticket transportation equipment.

At June 30, 2012, our exposure to the airline industry consisted of $68 million to major U.S. carriers, $105 million to foreign airlines and $15 million to U.S. regional airlines.

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

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

Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled $1.8 billion at June 30, 2012 compared with $1.9 billion at Dec. 31, 2011. Included in this portfolio at June 30, 2012 are $542 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of June 30, 2012, the purchased loans in this portfolio had a weighted-average loan-to-value ratio of 75% at origination, and 29% of these loans were at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, Maryland and the tri-state area (New York, New Jersey and Connecticut).

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

At June 30, 2012, we had less than $15 million in subprime mortgages included in our other residential mortgage portfolio. The subprime loans were issued to support our Community Reinvestment Act requirements.

Overdrafts

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

Other loans

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

Margin loans

Margin loans are collateralized with marketable securities, and borrowers are required to maintain a daily collateral margin in excess of 100% of the value of the loan. Margin loans also include $5.1 billion related to a term loan program that offers fully collateralized loans to broker-dealers.

Asset quality and allowance for credit losses

Over the past several years, we have improved our risk profile through greater focus on clients who are active users of our non-credit services, de-emphasizing broad-based loan growth. Our primary exposure to the credit risk of a customer consists of funded loans, unfunded formal contractual commitments to lend, standby letters of credit and overdrafts associated with our custody and securities clearance businesses.

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

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

Allowance for credit losses activity *(dollar amounts in millions)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Margin loans	**$ 13,462**	$ 13,144	$ 12,760	$ 9,520
Non-margin loans	**31,969**	29,884	31,219	32,627
Total loans	**$ 45,431**	$ 43,028	$ 43,979	$42,147
Beginning balance of allowance for credit losses	**$ 494**	$ 497	$ 498	$554
Provision for credit losses	**(19)**	5	23	-
Net (charge-offs) recoveries:				
Other residential mortgages	**(5)**	(8)	(14)	(9)
Commercial	**1**	-	-	(3)
Foreign	-	-	(2)	(6)
Commercial real estate	-	-	(1)	(1)
Financial institutions	**(4)**	-	(7)	-
Net (charge-offs)	**$ (8)**	$ (8)	$ (24)	$(19)
Ending balance of allowance for credit losses	**$ 467**	$ 494	$ 497	$ 535
Allowance for loan losses	**$ 362**	$ 386	$ 394	$ 441
Allowance for lending-related commitments	**$ 105**	$ 108	$ 103	$ 94
Allowance for loan losses as a percentage of total loans	**0.80%**	0.90%	0.90%	1.05%
Allowance for loan losses as a percentage of non-margin loans	**1.13%**	1.29%	1.26%	1.35%
Total allowance for credit losses as a percentage . of total loans	**1.03%**	1.15%	1.13%	1.27%
Total allowance for credit losses as a percentage of non-margin loans	**1.46%**	1.65%	1.59%	1.64%

Net charge-offs were $8 million in the second quarter of 2012, $19 million in the second quarter of 2011, and $8 million in the first quarter of 2012. Net charge-offs in the second quarter of 2012 were primarily driven by the financial institution and other residential mortgages portfolios. In the first quarter of 2012, net charge-offs were driven by the other residential mortgage portfolio. Net charge offs in the second quarter of 2011 were driven by the other residential mortgage and foreign portfolios.

The provision for credit losses was a credit of $19 million in the second quarter of 2012 primarily resulting from a decline in the expected loss related to a broker-dealer customer that previously filed for bankruptcy, as well as improvements in the mortgage portfolio. There was no provision in the second quarter of 2011 and a provision of $5 million in the first quarter of 2012. We anticipate the quarterly provision for credit losses to be approximately $0 to $15 million in the third quarter of 2012.

The total allowance for credit losses was $467 million at June 30, 2012, a decrease of $30 million compared with Dec. 31, 2011 and $68 million compared with June 30, 2011. The decrease compared with Dec. 31, 2011 primarily resulted from a decline in the expected loss related to a broker-dealer customer that previously filed for bankruptcy, as well as improvements in the mortgage portfolio. The decrease compared with June 30, 2011 primarily resulted from improvements in the mortgage portfolio.

The ratio of the total allowance for credit losses to non-margin loans was 1.46% at June 30, 2012, 1.59% at Dec. 31, 2011 and 1.64% at June 30, 2011. The ratio of the allowance for loan losses to non-margin loans was 1.13% at June 30, 2012, 1.26% at Dec. 31, 2011 and 1.35% at June 30, 2011. The decrease in these ratios at June 30, 2012 compared with Dec. 31, 2011 resulted from a decline in the expected loss related to a broker-dealer customer that previously filed for bankruptcy, as well as improvements in the mortgage portfolio.

We had $13.5 billion of secured margin loans on our balance sheet at June 30, 2012 compared with $12.8 billion at Dec. 31, 2011. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to them. As a result, we believe that the ratio of total allowance for credit losses to non-margin loans is a more appropriate metric to measure the adequacy of the reserve.

We utilize a quantitative methodology and qualitative framework for determining the allowance for credit losses. The three elements of the quantitative methodology are:

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

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

The second element, higher risk-rated credits and pass-rated credits, is based on our probable loss model. All borrowers are assigned to pools based on their credit ratings. The probable loss inherent in each loan in a pool incorporates the borrower's credit rating, loss given default rating and maturity. The loss given default incorporates a recovery expectation. The borrower's probability of default is derived from the associated credit rating. Borrower ratings are reviewed at least annually and are periodically mapped to third-party databases, including rating agency and default and recovery databases, to ensure ongoing consistency and validity. Higher risk-rated credits are reviewed quarterly. 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 inherent loss is calculated using the above factors. The resulting probable loss factor is applied against the loan balance to determine the allowance held for each pool.

Within this framework, management applies judgment when assessing internal risk factors and environmental factors to compute an additional allowance for each component of the loan portfolio. The qualitative framework is used to determine an additional allowance for each portfolio based on the factors below:

Internal risk factors:

- Nonperforming loans to total non-margin loans;
- Criticized assets to total loans and lending-related commitments;
- Ratings volatility;
- Borrower concentration; and
- Significant concentration in high-risk industry.

Environmental risk factors:

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

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

Based on an evaluation of these three elements and our qualitative framework, we have allocated our allowance for credit losses as follows:

Allocation of allowance to our portfolio	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Other residential mortgages	**33%**	33%	31%	37%
Commercial	**22**	20	18	18
Lease financing	**12**	12	13	17
Foreign	**12**	10	12	12
Financial institutions	**8**	11	13	5
Commercial real estate	**7**	7	7	5
Wealth management *(a)*	**6**	7	6	6
Total	**100%**	100%	100%	100%

(a) Includes the allowance for wealth management mortgages.

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

The credit rating assigned to each credit is a significant variable in determining the allowance. If each credit were rated one grade better, the allowance would have decreased by $58 million, while if each credit were rated one grade worse, the allowance would have increased by $91 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by $40 million, while if the loss given default were one rating better, the allowance would have decreased by $34 million. For impaired credits, if the net carrying value of the loans was 10% higher or lower, the allowance would have decreased or increased by $2 million, respectively.

Nonperforming assets

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

Nonperforming assets *(dollar amounts in millions)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011
Nonperforming loans:			
Other residential mortgages	**$ 177**	$ 188	$ 203
Wealth management	**35**	35	32
Commercial	**31**	32	21
Commercial real estate	**30**	39	40
Foreign	**9**	10	10
Financial institutions	**3**	14	23
Total nonperforming loans	**285**	318	329
Other assets owned	**9**	13	12
Total nonperforming assets *(a)*	**$ 294**	$ 331	$ 341
Nonperforming assets ratio	**0.65%**	0.77%	0.78%
Nonperforming assets ratio, excluding margin loans	**0.92**	1.11	1.09
Allowance for loan losses/ nonperforming loans	**127.0**	121.4	119.8
Allowance for loan losses/ nonperforming assets	**123.1**	116.6	115.5
Total allowance for credit losses/ nonperforming loans	**163.9**	155.3	151.1
Total allowance for credit losses/ nonperforming assets	**158.8**	149.2	145.7

(a) Loans of consolidated investment management funds are not part of BNY Mellon's loan portfolio. Included in these loans are nonperforming loans of $155 million at June 30, 2012, $180 million at March 31, 2012 and $101 million at Dec. 31, 2011. These loans are recorded at fair value and therefore do not impact the provision for credit losses and allowance for loan losses, and accordingly are excluded from the nonperforming assets table above.

Nonperforming assets quarterly activity *(in millions)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011
Balance at beginning of period	**$ 331**	$ 341	$ 344
Additions	**15**	36	69
Return to accrual status	**(6)**	(13)	(8)
Net charge-offs	**(11)**	(8)	(24)
Paydowns/sales	**(30)**	(22)	(37)
Net change in other real estate owned	**(5)**	(3)	(3)
Balance at end of period	**$ 294**	$ 331	$ 341

Nonperforming assets were $294 million at June 30, 2012, a decrease of $37 million compared with March 31, 2012. The decrease primarily resulted from paydowns/sales primarily in the residential mortgage, commercial real estate and financial institutions portfolios, net charge-offs of residential mortgage and financial institutions loans and the return to accrual status of residential mortgage loans. The decrease was partially offset by additions of residential mortgage loans.

See Note 5 of the Notes to Consolidated Financial Statements for additional information on our past due loans. See "Nonperforming assets" in Note 1 of the Notes to Consolidated Financial Statements in the 2011 Annual Report for our policy for placing loans on nonaccrual status.

Deposits

Total deposits were $221.1 billion at June 30, 2012 compared with $219.1 billion at Dec. 31, 2011. The slight increase reflects higher foreign and domestic interest-bearing deposits primarily offset by lower noninterest-bearing deposits.

Noninterest-bearing deposits were $76.9 billion at June 30, 2012 compared with $95.3 billion at Dec. 31, 2011. Interest-bearing deposits were $144.2 billion at June 30, 2012 compared with $123.8 billion at Dec. 31, 2011.

Short-term borrowings

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

See "Liquidity and dividends" below for a discussion of long-term debt and liquidity metrics that we monitor and an additional discussion on the Parent's reliance on short-term borrowings.

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

Federal funds purchased and securities sold under repurchase agreements

	Quarter ended		
(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011
Maximum daily balance during the quarter	**$21,818**	$15,636	$21,005
Average daily balance	**$11,254**	$ 8,584	$10,894
Weighted-average rate during the quarter	**0.01%**	(0.02)%	0.06%
Ending balance	**$ 9,162**	$ 8,285	$ 7,572
Weighted-average rate at period end	**(0.03)%**	(0.03)%	0.03%

Federal funds purchased and securities sold under repurchase agreements were $9.2 billion at June 30, 2012, $8.3 billion at March 31, 2012 and $7.6 billion at June 30, 2011. Average federal funds purchased and securities sold under repurchase agreements were $11.3 billion in the second quarter of 2012, $8.6 billion in the first quarter of 2012 and $10.9 billion in the second quarter of 2011. The higher average federal funds purchased and securities sold under repurchase agreements in the second quarter of 2012 was primarily a function of attractive overnight rate opportunities. The maximum daily balance in the second quarter of 2012 was $21.8 billion and resulted from the same attractive overnight borrowing opportunities. The weighted-average rates in the second quarter of 2012, the first quarter of 2012 and the second quarter of 2011, reflect revenue earned on securities sold under repurchase agreements related to certain securities for which we were able to charge for lending them.

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

Payables to customers and broker-dealers

	Quarter ended		
(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011
Maximum daily balance during the quarter	**$15,812**	$14,176	$12,194
Average daily balance	**$13,255**	$13,123	$11,031
Weighted-average rate during the quarter *(a)*	**0.10%**	0.11%	0.09%
Ending balance	**$13,305**	$12,959	$11,512
Weighted-average rate at period end	**0.10%**	0.12%	0.10%

(a) The weighted-average rate is calculated based on, and is applied to, the average interest-bearing payables to customers and broker-dealers, which were $7,895 million in the second quarter of 2012, $7,555 million in the first quarter of 2012 and $6,843 million in the second quarter of 2011.

Payables to customers and broker-dealers represent funds awaiting reinvestment and short sale proceeds, payable on demand. Payables to customers and broker-dealers were $13.3 billion at June 30, 2012, $13.0 billion at March 31, 2012 and $11.5 billion at June 30, 2011. Payables to customers and broker-dealers are driven by customer trading activity and market volatility.

Information related to commercial paper is presented below.

Commercial paper

	Quarter ended		
(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011
Maximum daily balance during the quarter	**$2,547**	$1,126	$101
Average daily balance	**$1,436**	$ 67	$ 24
Weighted-average rate during the quarter	**0.29%**	0.08%	0.03%
Ending balance	**$1,564**	$1,070	$ 36
Weighted-average rate at period end	**0.14%**	0.11%	0.03%

Commercial paper outstanding was $1.6 billion at June 30, 2012, $1.1 billion at March 31, 2012 and $36 million at June 30, 2011. The increase compared with both prior periods was driven by attractive short-term borrowing opportunities and Parent funding requirements. Average commercial paper outstanding was $1.4 billion in the second quarter of 2012, $67 million in the first quarter of 2012 and $24 million in the second quarter of 2011. Our commercial paper matures within 397 days from date of issue and is not redeemable prior to maturity or subject to voluntary prepayment.

Information related to other borrowed funds is presented below.

Other borrowed funds

	Quarter ended		
(dollar amounts in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011
Maximum daily balance during the quarter	**$2,795**	$5,506	$2,959
Average daily balance	**$1,114**	$2,512	$1,853
Weighted-average rate during the quarter	**1.87%**	0.81%	2.09%
Ending balance	**$1,374**	$2,062	$2,337
Weighted-average rate at period end	**2.75%**	1.13%	2.46%

Other borrowed funds primarily include borrowings under lines of credit by our Pershing subsidiaries; and overdrafts of sub-custodian account balances in our Investment Services business. Overdrafts in these accounts typically relate to timing differences for settlements. Other borrowed funds were $1.4 billion at June 30, 2012, $2.1 billion at March 31, 2012 and $2.3 billion at June 30, 2011. The decrease compared with both prior periods reflects a change in the source of funding for the borrowing under lines of credit by our Pershing subsidiaries.

Liquidity and dividends

BNY Mellon defines liquidity as the ability of the Parent and its subsidiaries to access funding or convert assets to cash quickly and efficiently, especially during periods of market stress. Liquidity risk is the risk that BNY Mellon cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flows, without adversely affecting daily operations or 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 lending-related 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 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 interest-earning assets, foreign deposits as a percentage of total interest-earnings assets, purchased funds as a percentage of total interest-earning assets, liquid assets as a percentage of total interest-earning assets and liquid assets as a percentage of purchased funds. All of these ratios exceeded our minimum guidelines at June 30, 2012.

We also perform stress tests to verify sufficient funding capacity is accessible under multiple stress scenarios.

Available funds are defined as liquid funds (which include interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements), cash and due from banks, and interest-bearing deposits with the Federal Reserve and other central banks. The table below presents our total available funds, including liquid funds, at period end and on an average basis. The decline in available funds at June 30, 2012 compared with Dec. 31, 2011 resulted from a decrease in interest-bearing deposits with the Federal Reserve and other central banks as we increased the level of our securities portfolio.

Available and liquid funds	**June 30,**	Dec. 31,	Average				
(in millions)	**2012**	2011	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Available funds:							
Liquid funds:							
Interest-bearing deposits with banks	**$ 39,743**	$ 36,321	**$ 38,474**	$ 35,095	$ 59,291	**$ 36,784**	$ 58,468
Federal funds sold and securities purchased under resale agreements	**8,543**	4,510	**5,493**	5,174	4,577	**5,333**	4,546
Total liquid funds	**48,286**	40,831	**43,967**	40,269	63,868	**42,117**	63,014
Cash and due from banks	**4,522**	4,175	**4,412**	4,271	4,335	**4,341**	4,215
Interest-bearing deposits with the Federal Reserve and other central banks	**76,243**	90,243	**57,904**	63,526	34,068	**60,715**	27,255
Total available funds	**$ 129,051**	$ 135,249	**$ 106,283**	$ 108,066	$ 102,271	**$ 107,173**	$ 94,484
Total available funds as a percentage of total assets	**39%**	42%	**35%**	36%	37%	**35%**	35%

On an average basis for the first six months of 2012 and the first six months of 2011, non-core sources of funds, such as money market rate accounts, federal funds purchased, trading liabilities and other borrowings, were $20.0 billion and $16.8 billion, respectively. The increase primarily reflects higher levels of money market rate accounts, federal funds purchased and other borrowings, partially offset by lower levels of trading liabilities. Average foreign deposits, primarily from our European-based Investment Services business, were $87.4 billion and $81.4 billion for the first six months of 2012 and the first six months of 2011. The increase primarily reflects growth in client deposits. Domestic savings and time deposits averaged $34.1 billion for the first six months of 2012 compared with $35.0 billion for the first six months of 2011. The decrease reflects a decline in client savings deposits.

Average payables to customers and broker-dealers were $7.7 billion for the first six months of 2012 and $6.8 billion for the first six months of 2011. Long-term debt averaged $20.3 billion in the first six months of 2012 and $17.2 billion in the first six months of 2011. The increase in average long-term debt was driven by planned capital actions and anticipated maturities. Average noninterest-bearing deposits increased to $64.7 billion in the first six months of 2012 from $40.8 billion in the first six months of 2011, reflecting growth in client deposits. A significant reduction in our Investment Services businesses would reduce our access to deposits.

The Parent has four major sources of liquidity:

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

Our bank subsidiaries can declare dividends to the Parent of approximately $3.9 billion, subsequent to June 30, 2012, without the need for a regulatory waiver. In addition, at June 30, 2012, non-bank subsidiaries of the Parent had liquid assets of approximately $1.4 billion.

In the second quarter of 2012, BNY Mellon's quarterly cash dividend was $0.13 per common share. 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 20 of the Notes to Consolidated Financial Statements contained in the 2011 Annual Report.

For the quarter ended June 30, 2012, the Parent's quarterly average commercial paper borrowings were $1.4 billion compared with $24 million for the quarter ended June 30, 2011. In addition to issuing commercial paper for funding purposes, the Parent issues commercial paper, on an overnight basis, to certain custody clients with excess demand deposit balances. Overnight commercial paper issued by the Parent was $1.6 billion at June 30, 2012 and $10 million at Dec. 31, 2011. The Parent had cash of $5.1 billion at June 30, 2012 compared with $4.6 billion at Dec. 31, 2011. Net of commercial paper outstanding, the Parent's cash position at June 30, 2012 decreased $1.0 billion compared with Dec. 31, 2011, primarily reflecting increased loans to subsidiaries which replaced external funding sources and share repurchases.

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

In the second quarter of 2012, we repurchased 12.2 million common shares in the open market at an average price of $23.38 per share for a total of $286 million.

While the Parent's liquidity policy is to have sufficient cash on hand to meet its obligations over the next 12 months without the need to receive dividends from its bank subsidiaries or issue debt, our practice has been to maintain sufficient cash for the next 24 months. As of June 30, 2012, the Parent was in compliance with its liquidity policy.

In addition to our other funding sources, we also have the ability to access the capital markets. In June 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. These registration statements will expire in June 2013, at which time we plan to file new shelf registration statements.

Our ability to access capital markets on favorable terms, or at all, is partially dependent on our credit ratings, which, as of June 30, 2012, were as follows:

Debt ratings at June 30, 2012	Moody's	Standard & Poor's	Fitch	DBRS
Parent:				
Long-term senior debt	Aa3	A+	AA-	AA (low)
Subordinated debt	A1	A	A+	A (high)
Trust preferred securities	A2	BBB	BBB+	A (high)
Short-term	P1	A-1	F1+	R-1 (middle)
Outlook – Parent:	Negative	Negative	Stable	Stable
The Bank of New York Mellon:				
Long-term senior debt	Aa1	AA-	AA-	AA
Long-term deposits	Aa1	AA-	AA	AA
Short-term deposits	P1	A-1+	F1+	R-1 (high)
BNY Mellon, N.A.:				
Long-term senior debt	Aa1	AA-	AA- *(a)*	AA
Long-term deposits	Aa1	AA-	AA	AA
Short-term deposits	P1	A-1+	F1+	R-1 (high)
Outlook - Banks:	Stable	Negative	Stable	Stable

(a) Represents senior debt issuer default rating.

As a result of Moody's & Standard & Poor's ("S&P") government support assumptions on U.S. financial institutions, the Parent's Moody's and S&P ratings benefit from one notch of "lift". Similarly, The Bank of New York Mellon's and BNY Mellon, N.A.'s ratings benefit from two notches of "lift" from Moody's and one notch of "lift" from S&P.

Subsequent to June 30, 2012, S&P, Fitch and DBRS reaffirmed all of our debt ratings.

Long-term debt decreased to $19.5 billion at June 30, 2012 from $19.9 billion at Dec. 31, 2011, primarily due to the maturity of $1.4 billion of senior debt and $300 million of subordinated debt as well as the redemption of $500 million of junior subordinated debentures, partially offset by the issuance of $1.75 billion of senior debt.

The Parent has $1.8 billion of long-term debt that will mature in the remainder of 2012 and has the option to call $82 million of subordinated debt in the remainder of 2012, which it may call and refinance if market conditions are favorable.

At June 30, 2012, we had approximately $1.2 billion of trust preferred securities outstanding that will be impacted by the Dodd-Frank Act. These securities currently qualify as Tier 1 capital. The $1.2 billion includes $850 million of trust preferred securities that are currently callable. 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 will disqualify these trust preferred securities from being treated as Tier 1 capital over a three-year period beginning Jan. 1, 2013.

Our outstanding trust preferred securities include $500 million of Fixed-to-Floating Rate Normal Preferred Capital Securities ("PCS") issued by Mellon Capital IV. As contractually obligated under the terms of the PCS, a remarketing occurred in May 2012. In this remarketing, junior subordinated notes issued by BNY Mellon and held by Mellon Capital IV were sold to third party investors and then exchanged for BNY Mellon's senior notes, which were sold in a public offering. The proceeds of the sale of the senior notes were used to fund the purchase by Mellon Capital IV of $500 million of BNY Mellon's Series A non-cumulative perpetual preferred stock, which was issued on June 20, 2012. As a result of the remarketing, the PCS are expected to pay distributions at a rate per annum equal to the greater of (i) three-month LIBOR plus 0.565% for the related distribution period; and (ii) 4.000%. The non-cumulative perpetual preferred stock qualifies as Tier 1 capital under the recently released NPRs.

The double leverage ratio is the ratio of investment in subsidiaries divided by our consolidated equity, which includes our non-cumulative perpetual preferred stock, plus trust preferred securities. Our double leverage ratio was 108.5% at June 30, 2012 and 107.3% at Dec. 31, 2011. 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 for $750 million extended by 17 financial institutions matures in March 2013. Pershing has another committed line of credit for $125 million extended by one financial institution that matures in September 2012. There were no borrowings under either of these lines of credit during the second quarter of 2012. Pershing LLC has nine separate uncommitted lines of credit amounting to $1.6 billion in aggregate. Average daily borrowing under these lines was $15 million, in aggregate, during the second quarter of 2012. See "Liquidity and dividends" in the 2011 Annual Report for a description of the covenants required to be maintained by the Parent for the committed line of credit maintained by Pershing LLC. We are currently in compliance with these covenants.

Pershing Limited, an indirect U.K.-based subsidiary of BNY Mellon, has uncommitted lines of credit in place for liquidity purposes, which are guaranteed by the Parent. Pershing Limited has two separate uncommitted lines of credit amounting to $250 million in aggregate. Average daily borrowing under these lines was $40 million, in aggregate, during the second quarter of 2012.

Statement of cash flows

Cash provided by operating activities was $374 million for the six months ended June 30, 2012 compared with $997 million for the six months ended June 30, 2011. In the first six months of 2012 and 2011, earnings, partially offset by changes in accruals and other balances, were a significant source of funds.

Through June 30, 2012, cash used for investing activities was $5.8 billion compared with $52.0 billion in the first six months of 2011. In the first six months of 2012, purchases of securities, changes in federal funds sold and securities purchased under resale agreements and changes in interest-bearing deposits with banks were a significant use of funds, partially offset by decreases in deposits with the Federal Reserve and other central banks and sales, paydowns, and maturities of securities. In the first six months of 2011, increases in interest-bearing deposits with banks, and with the Federal Reserve and other central banks, and purchases of securities were a significant use of funds, partially offset by sales, paydowns and maturities of securities.

In the first six months of 2012, cash provided by financing activities was $5.8 billion compared with $52.9 billion in the first six months of 2011. In the first six months of 2012, increases in federal funds purchased and securities sold under repurchase agreements, deposits, commercial paper and the issuance of long-term debt were significant sources of funds, partially offset by repayment of long-term debt, a decrease in other borrowed funds and treasury stock repurchases. In the first six months of 2011, an increase in deposits was a significant source of funds partially offset by a decrease in other borrowed funds.

Capital

Capital data *(dollar amounts in millions except per share amounts; common shares in thousands)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Average common equity to average assets	**11.2%**	11.2%	10.7%	12.0%
At period end:				
BNY Mellon shareholders' equity to total assets ratio	**10.5%**	11.3%	10.3%	11.1%
BNY Mellon common shareholders' equity to total assets ratio	**10.3%**	11.3%	10.3%	11.1%
Total BNY Mellon shareholders' equity – GAAP	**$ 34,533**	$ 34,000	$ 33,417	$ 33,851
Total BNY Mellon common shareholders' equity – GAAP	**$ 34,033**	$ 34,000	$ 33,417	$ 33,851
Tangible BNY Mellon common shareholders' equity – Non-GAAP *(a)*	**$ 13,544**	$ 13,326	$ 12,787	$ 12,671
Book value per common share – GAAP	**$ 28.81**	$ 28.51	$ 27.62	$ 27.46
Tangible book value per common share – Non-GAAP *(a)*	**$ 11.47**	$ 11.17	$ 10.57	$ 10.28
Closing common stock price per share	**$ 21.95**	$ 24.13	$ 19.91	$ 25.62
Market capitalization	**$ 25,929**	$ 28,780	$ 24,085	$ 31,582
Common shares outstanding	**1,181,298**	1,192,716	1,209,675	1,232,691
Cash dividends per common share	**$ 0.13**	$ 0.13	$ 0.13	$ 0.13
Common dividend yield *(annualized)*	**2.4%**	2.2%	2.6%	2.0%
Common dividend payout ratio	**33%**	25%	31%	22%

(a) See "Supplemental information – Explanation of Non-GAAP financial measures" beginning on page 50 for the reconciliation of GAAP to Non-GAAP.

Total The Bank of New York Mellon Corporation shareholders' equity increased compared with Dec. 31, 2011, primarily reflecting earnings retention, the issuance of $500 million of non-cumulative perpetual preferred stock and the increased value of our investment securities portfolio, partially offset by share repurchases.

During the second quarter of 2012, we repurchased 12.2 million shares in the open market at an average price of $23.38 per share for a total of $286 million. In March 2012, BNY Mellon received confirmation that the Federal Reserve did not object to our 2012 comprehensive capital plan. Our 2012 capital plan includes the repurchase of up to $1.16 billion of outstanding common stock and the continuation of the 13 cents per share quarterly cash dividend.

The unrealized net of tax gain on our available-for-sale securities portfolio recorded in accumulated other comprehensive income was $784 million at June 30, 2012 compared with $417 million at Dec. 31, 2011. The increase in the valuation of the investment securities portfolio was driven by a decline in market interest rates.

On July 18, 2012, the Board of Directors declared a quarterly common stock dividend of $0.13 per common share. This cash dividend was paid on Aug. 7, 2012, to shareholders of record as of the close of business on July 30, 2012.

Capital adequacy

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

As of June 30, 2012 and Dec. 31, 2011, BNY Mellon and our bank subsidiaries were considered well capitalized on the basis of the Basel I Total and Tier 1 capital to risk-weighted assets ratios and the leverage ratio (Basel I Tier 1 capital to quarterly average assets as defined for regulatory purposes).

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

Consolidated and largest bank subsidiary capital ratios	Well capitalized	Adequately capitalized	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Consolidated capital ratios:						
Estimated Basel III Tier 1 common equity ratio – Non-GAAP *(a)(b)*	N/A	N/A	**8.7%**	N/A	N/A	N/A
Tangible BNY Mellon shareholders' equity to tangible assets of operations ratio – Non-GAAP *(b)*	N/A	N/A	**6.1%**	6.5%	6.4%	6.0%
Determined under Basel I-based guidelines *(c)*:						
Tier 1 common equity to risk-weighted assets ratio – Non-GAAP *(b)*	N/A	N/A	**13.2%**	13.9%	13.4%	12.6%
Tier 1 capital	6%	N/A	**14.7**	15.6	15.0	14.1
Total capital	10	N/A	**16.4**	17.5	17.0	16.7
Leverage – guideline	5	N/A	**5.5**	5.6	5.2	5.8
The Bank of New York Mellon capital ratios *(c)*:						
Tier 1 capital	6%	4%	**13.7%**	14.8%	14.3%	12.1%
Total capital	10	8	**14.5**	18.0	17.7	15.7
Leverage	5	3	**5.7**	5.7	5.3	5.3

(a) The estimated Basel III Tier 1 common equity ratio at June 30, 2012 is based on the NPRs and final market risk rule released on June 7, 2012. The estimated Basel III Tier 1 common equity ratios of 7.6% at March 31, 2012, 7.1% at Dec. 31, 2011 and 6.5% at June 30, 2011 were based on prior Basel III guidance and the proposed market risk rule.

(b) See "Supplemental information – Explanation of Non-GAAP financial measures" beginning on page 50 for a calculation of this ratio.

(c) When in this Form 10-Q we refer to BNY Mellon's or our bank subsidiary's "Basel I" capital measures (e.g., Basel I Total capital or Basel I Tier 1 capital), we mean Total or Tier 1 capital, as applicable, as calculated under the Federal Reserve's risk-based capital guidelines that are based on the 1988 Basel Accord, which is often referred to as "Basel I".

N/A – Not applicable at the consolidated company level. Well capitalized and adequately capitalized have not been defined for Basel III.

Our estimated Basel III Tier 1 common equity ratio was 8.7% at June 30, 2012 based on the NPRs and final market risk rule. The increase in the ratio from 7.6% at March 31, 2012, which was calculated under prior Basel III guidance and the proposed market risk rule, was primarily due to the reduction in risk-weighted assets related to the treatment of sub-investment grade securities, partially offset by the treatment of investment grade securitizations and financial institution exposure. The positive impact of the NPRs was partially offset by balance sheet growth in the second quarter of 2012.

At June 30, 2012, 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 June 30, 2012 *(in millions)*	**Consolidated**	**The Bank of New York Mellon**
Tier 1 capital	$ 9,316	$ 7,240
Total capital	6,832	4,199
Leverage	1,483	1,519

Failure to satisfy regulatory standards, including "well-capitalized" status or capital adequacy guidelines more generally, could result in limitations on our activities and adversely affect our financial condition. See the discussion of these matters in our 2011 Annual Report in Item 1 (Business–Supervision and Regulation–Regulated Entities of BNY Mellon) and Item 1A (Risk Factors–Supervisory Standards–Failure to satisfy regulatory standards, including 'well-capitalized' status or capital adequacy guidelines more generally, could result in limitations on our activities and adversely affect our financial condition.)

Our Basel I Tier 1 capital ratio was 14.7% at June 30, 2012 compared with 15.0% at Dec. 31, 2011. The decrease from Dec. 31, 2011 primarily reflects higher risk-weighted assets. Our Basel I Tier 1 leverage ratio was 5.5% at June 30, 2012 compared with 5.2% at Dec. 31, 2011. The leverage ratio of The Bank of New York Mellon was 5.7% at June 30, 2012 compared with 5.3% at Dec. 31, 2011. The improvement in the leverage ratio of both BNY Mellon and The Bank of New York Mellon reflects a lower level of average assets driven by a decrease in average noninterest-bearing client deposits, and earnings retention.

The Basel I 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 client and market activity. In general, when servicing clients are more actively trading securities, deposit balances and the balance sheet as a whole are higher. In addition, when markets experience significant volatility, our balance sheet size may increase considerably as client deposit levels increase.

In the second quarter of 2012, we generated $527 million of gross Basel I Tier 1 common equity, which was primarily driven by earnings retention.

Basel I Tier 1 common equity generation

	Quarter ended	
(in millions)	**June 30, 2012**	March 31, 2012
Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP	**$ 466**	$ 619
Add: Amortization of intangible assets, net of tax	**61**	61
Gross Basel I Tier 1 common equity generated	**527**	680
Less capital deployed:		
Dividends	**156**	158
Common stock repurchases	**286**	371
Total capital deployed	**442**	529
Add: Other	**(53)**	146
Net Basel I Tier 1 common equity generated	**$ 32**	$ 297

The following table shows the impact of a $1 billion increase or decrease in risk-weighted assets or a $100 million increase or decrease in common equity on the consolidated capital ratios at June 30, 2012.

Potential impact to capital ratios as of June 30, 2012

	Increase or decrease of	
(basis points)	**$100 million in common equity**	**$1 billion in risk-weighted assets/ quarterly average assets** *(a)*
Basel I:		
Tier 1 capital	9 bp	14 bp
Total capital	9	15
Leverage	4	2
Basel III:		
Estimated Tier 1 common equity ratio	7 bp	6 bp

(a) Quarterly average assets determined under Basel I regulatory guidelines.

Our tangible BNY Mellon shareholders' equity to tangible assets of operations ratio was 6.1% at June 30, 2012 compared with 6.4% at Dec. 31, 2011. The decrease compared with Dec. 31, 2011 was primarily due to lower cash on deposit with the Federal Reserve and other central banks, as we increased our investment in securities.

At June 30, 2012, we had approximately $1.2 billion of trust preferred securities outstanding. These securities currently qualify as Tier 1 capital. The implementation of the Dodd-Frank Act will disqualify these trust preferred securities from being treated as Tier 1 capital over a three-year period beginning Jan. 1, 2013.

Our outstanding trust preferred securities include $500 million of Fixed-to-Floating Rate Normal Preferred Capital Securities ("PCS") issued by Mellon Capital IV. As contractually obligated under the terms of the PCS, a remarketing occurred in May 2012. In this remarketing, junior subordinated notes issued by BNY Mellon and held by Mellon Capital IV were sold to third party investors and then exchanged for BNY Mellon's senior notes, which were sold in a public offering. The proceeds of the sale of the senior notes were used to fund the purchase by Mellon Capital IV of $500 million of BNY Mellon's Series A non-cumulative perpetual preferred stock, which was issued on June 20, 2012. As a result of the remarketing, the PCS are expected to pay distributions at a rate per annum equal to the greater of (i) three-month LIBOR plus 0.565% for the related distribution period; and (ii) 4.000%. The non-cumulative perpetual preferred stock qualifies as Tier 1 capital under the recently released NPRs.

The following table presents the components of our Basel I Tier 1 and Total risk-based capital at June 30, 2012, March 31, 2012, Dec. 31, 2011 and June 30, 2011, respectively.

Components of Basel I Tier 1 and total risk-based capital *(a)* *(in millions)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Tier 1 capital:				
Common shareholders' equity	**$ 34,033**	$ 34,000	$ 33,417	$ 33,851
Preferred stock	**500**	-	-	-
Trust preferred securities	**1,164**	1,669	1,659	1,669
Adjustments for:				
Goodwill and other intangibles *(b)*	**(20,489)**	(20,674)	(20,630)	(21,180)
Pensions/cash flow hedges	**1,372**	1,397	1,426	1,018
Securities valuation allowance	**(825)**	(663)	(450)	(433)
Merchant banking investments	**(33)**	(34)	(33)	(33)
Total Tier 1 capital	**15,722**	15,695	15,389	14,892
Tier 2 capital:				
Qualifying unrealized gains on equity securities	**2**	2	2	5
Qualifying subordinated debt	**1,317**	1,414	1,545	2,120
Qualifying allowance for credit losses	**467**	494	497	535
Total Tier 2 capital	**1,786**	1,910	2,044	2,660
Total risk-based capital	**$ 17,508**	$ 17,605	$ 17,433	$ 17,552
Total risk-weighted assets	**$ 106,764**	$ 100,763	$ 102,255	$ 105,316
Average assets for leverage capital purposes	**$ 284,776**	$ 281,281	$ 296,484	$ 257,714

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

(b) Reduced by deferred tax liabilities associated with non-tax deductible identifiable intangible assets of $1,400 million at June 30, 2012, $1,428 million at March 31, 2012, $1,459 million at Dec. 31, 2011 and $1,630 million at June 30, 2011, and deferred tax liabilities associated with tax deductible goodwill of $982 million at June 30, 2012, $972 million at March 31, 2012, $967 million at Dec. 31, 2011 and $895 million at June 30, 2011.

The following table presents the calculation of our estimated Basel III Tier 1 common equity ratio, based on the NPRs and final market risk rule released on June 7, 2012, on a fully phased-in basis.

Estimated Basel III Tier 1 common equity ratio*(a)* *(dollars in millions)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Total Tier 1 capital – Basel I	**$ 15,722**	$ 15,695	$ 15,389	$ 14,892
Less: Trust preferred securities	**1,164**	1,669	1,659	1,669
Preferred stock	**500**	-	-	-
Adjustments related to available-for-sale securities and pension liabilities included in accumulated other comprehensive income *(b)*	**513**	700	944	551
Adjustments related to equity method investments *(b)*	**558**	571	555	578
Deferred tax assets	**46**	-	-	-
Net pension fund assets *(b)*	**43**	100	90	542
Other	**2**	(2)	(3)	(4)
Total estimated Basel III Tier 1 common equity	**$ 12,896**	$ 12,657	$ 12,144	$ 11,556
Total risk-weighted assets – Basel I	**$ 106,790**	$ 100,763	$ 102,255	$ 105,316
Add: Adjustments *(c)*	**41,467**	65,997	67,813	71,965
Total estimated Basel III risk-weighted assets	**$ 148,257**	$ 166,760	$ 170,068	$ 177,281
Estimated Basel III Tier 1 common equity ratio – Non-GAAP	**8.7%**	7.6%	7.1%	6.5%

(a) The estimated Basel III Tier 1 common equity ratio at June 30, 2012 is based on the NPRs and final market risk rule released on June 7, 2012. The estimated Basel III Tier 1 common equity ratios at March 31, 2012, Dec. 31, 2011 and June 30, 2011 were based on our interpretation of prior Basel III guidance and the proposed market risk rule.

(b) The NPRs and prior Basel III guidance do not add back to capital the adjustment to other comprehensive income that Basel I makes for pension liabilities and available-for-sale securities. Also, under the NPRs and prior Basel III guidance, pension assets recorded on the balance sheet and adjustments related to equity method investments are a deduction from capital.

(c) Primary differences between risk-weighted assets determined under Basel I compared with the NPRs and prior Basel III guidance include: the determination of credit risk under Basel I uses predetermined risk weights and asset classes, while the NPRs use an investment grade standard and internal risk models. Securitization exposure receives a higher risk-weighting under the NPRs and prior Basel III guidance than Basel I; also, the NPRs and prior Basel III guidance includes additional adjustments for operational risk, market risk, counterparty credit risk and equity exposures.

Trading activities and risk management

Our trading activities are focused on acting as a market maker for our customers and facilitating customer trades. Positions managed for our own account are immaterial to our foreign exchange and other trading revenue and to our overall results of operations. The risk from market-making activities for customers is managed by our traders and limited in total exposure through a system of position limits, a value-at-risk ("VaR") methodology based on a Monte Carlo simulation, stop loss advisory triggers and other market sensitivity measures. See Note 16 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 periods indicated:

VaR *(a)*	**2nd Quarter 2012**			**June 30,**
(in millions)	**Average**	**Minimum**	**Maximum**	**2012**
Interest rate	**$ 8.9**	**$ 5.0**	**$ 13.2**	**$ 11.2**
Foreign exchange	**1.7**	**0.5**	**3.7**	**0.5**
Equity	**2.0**	**1.3**	**3.2**	**1.4**
Credit	**-**	**-**	**-**	**-**
Diversification	**(3.7)**	**N/M**	**N/M**	**(3.1)**
Overall portfolio	**8.9**	**5.0**	**13.6**	**10.0**

VaR *(a)*	1st Quarter 2012			March 31,
(in millions)	Average	Minimum	Maximum	2012
Interest rate	$ 9.7	$ 6.0	$ 13.0	$ 8.2
Foreign exchange	3.3	1.8	4.8	3.1
Equity	2.3	1.4	3.4	2.1
Credit	-	-	-	-
Diversification	(4.4)	N/M	N/M	(4.4)
Overall portfolio	10.9	6.8	14.8	9.0

VaR *(a)*	2nd Quarter 2011			June 30,
(in millions)	Average	Minimum	Maximum	2011
Interest rate	$6.1	$3.5	$10.4	$6.7
Foreign exchange	2.9	0.8	5.2	3.2
Equity	2.7	2.1	3.3	2.8
Credit	0.2	0.1	0.2	0.2
Diversification	(4.6)	N/M	N/M	(4.8)
Overall portfolio	7.3	5.2	10.2	8.1

VaR *(a)*	**Year-to-date 2012**		
(in millions)	**Average**	**Minimum**	**Maximum**
Interest rate	**$ 9.3**	**$ 5.0**	**$ 13.2**
Foreign exchange	**2.5**	**0.5**	**4.8**
Equity	**2.2**	**1.3**	**3.4**
Credit	**-**	**-**	**-**
Diversification	**(4.0)**	**N/M**	**N/M**
Overall portfolio	**10.0**	**5.0**	**14.8**

VaR *(a)*	Year-to-date 2011		
(in millions)	Average	Minimum	Maximum
Interest rate	$5.5	$3.0	$10.4
Foreign exchange	2.3	0.4	5.2
Equity	2.6	1.8	6.1
Credit	0.2	0.1	0.3
Diversification	(4.0)	N/M	N/M
Overall portfolio	6.6	4.1	10.2

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

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

During the second quarter of 2012, interest rate risk generated 71% of average VaR, foreign exchange risk generated 13% of average VaR and equity risk generated 16% of average VaR. During the second quarter of 2012, our daily trading loss did not exceed our calculated VaR amount on any given day.

BNY Mellon monitors a volatility index of global currency using a basket of 30 major currencies. In the second quarter of 2012, the volatility of this index decreased approximately 3 basis points from the first quarter of 2012.

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

Distribution of trading revenues (losses) *(a)*	Quarter ended				
(dollar amounts in millions)	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	**June 30, 2012**
Revenue range:	Number of days				
Less than $(2.5)	-	-	-	-	**-**
$(2.5) - $0	1	2	1	1	**4**
$0 - $2.5	20	21	19	25	**25**
$2.5 - $5.0	31	26	33	32	**29**
More than $5.0	12	15	8	4	**6**

(a) Distribution of trading revenues (losses) does not reflect the impact of the CVA and corresponding hedge.

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 June 30, 2012, our over-the-counter ("OTC") derivative assets of $5.0 billion included a CVA deduction of $183 million, including $7 million related to the credit quality of certain CDO counterparties and Lehman. Our OTC derivative liabilities of $6.3 billion included a debit valuation adjustment ("DVA") of $42 million related to our own credit spread. Net of hedges, the CVA decreased $2 million and the DVA decreased $1 million in the second quarter of 2012. The net impact of these adjustments increased foreign exchange and other trading revenue by $1 million in the second quarter of 2012.

In the first quarter of 2012, net of hedges, the CVA decreased $16 million and the DVA decreased $5 million in the first quarter of 2012. The net impact of these adjustments increased foreign exchange and other trading revenue by $11 million

In the second quarter of 2011, net of hedges, the CVA decreased $3 million and the DVA decreased $1 million. The net impact of these adjustments increased foreign exchange and other trading revenue by $2 million.

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. The internal risk ratings for our foreign exchange and interest rate derivative counterparty credit exposure were remapped to external ratings in the second quarter of 2012. All prior periods have been restated. The decrease in the counterparties rated AAA to AA- primarily reflects the June 2012 action by Moody's to downgrade several large financial institutions.

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

	Quarter ended				
	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	March 31, 2012	**June 30, 2012**
Rating:					
AAA to AA-	51%	48%	47%	45%	**40%**
A+ to A-	23	27	27	29	**31**
BBB+ to BBB-	22	21	22	22	**22**
Noninvestment grade (BB+ and lower)	4	4	4	4	**7**
Total	100%	100%	100%	100%	**100%**

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

Asset/liability management

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

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

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 at June 30, 2012 *(dollar amounts in millions)*	
up 200 bps parallel rate shift vs. baseline *(a)*	**$ 541**
up 100 bps parallel rate shift vs. baseline *(a)*	**400**
Long-term up 50 bps, short-term unchanged *(b)*	**134**
Long-term down 50 bps, short-term unchanged *(b)*	**(121)**

(a) In the parallel rate shift, both short-term and long-term rates move equally.
(b) Long-term is equal to or greater than one year.
bps - basis points.

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

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

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

- Global economic uncertainty, particularly in Europe;
- Our ratings relative to other financial institutions' ratings;
- Money market mutual fund reform; and

- Extension of existing unlimited FDIC insurance on transaction accounts.

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

Off-balance sheet arrangements

Off-balance sheet arrangements discussed in this section are limited to guarantees, retained or contingent interests, support agreements, 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 Investment Services businesses. See Note 17 of the Notes to Consolidated Financial Statements for a further discussion of our off-balance sheet arrangements.

Supplemental information – Explanation of Non-GAAP financial measures

BNY Mellon has included in this Form 10-Q certain Non-GAAP financial measures based upon tangible common shareholders' equity. BNY Mellon believes that the 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. The tangible common shareholders' equity 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. 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 noncontrolling interests related to consolidated investment management funds and other revenue related to the Shareowner Services business, which was sold on Dec. 31, 2011, and expense measures which exclude M&I expenses, litigation charges, restructuring charges, amortization of intangible assets and direct expenses related to the Shareowner Services business. 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 certain ongoing charges as a result of prior transactions or where we have incurred charges. M&I expenses primarily relate to the acquisitions of Global Investment Servicing on July 1, 2010 and BHF Asset Servicing GmbH on Aug. 2, 2010. M&I expenses generally continue for approximately three years after the transaction and can vary on a year-to-year basis depending on the stage of the integration. BNY Mellon believes 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. Future periods will not reflect such M&I expenses, and thus may be more easily compared with our current results if M&I expenses are excluded. Litigation charges represent accruals for loss contingencies that are both probable and reasonably estimable, but exclude standard business-related legal fees. Restructuring charges relate to our operational excellence initiatives and migrating positions to global delivery centers. Excluding these charges permits investors to view expense on a basis consistent with how management views the business. BNY Mellon also presents revenue and noninterest expense results relating to the Shareowner Services business so that an investor may compare those results with other periods, which do not include the Shareowner Services business.

The presentation of income (loss) of consolidated investment management funds, net of net income (loss) attributable to noncontrolling interests related to the consolidation of certain investment management funds, permits investors the ability to view revenue on a basis consistent with prior periods. BNY Mellon believes that these presentations, as a supplement to GAAP information, give investors a clearer picture of the results of its primary businesses.

In this Form 10-Q, the net interest margin is presented on an FTE basis. We believe 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 business-level basis.

The following table presents a reconciliation of the tax rate from an effective rate to an operating rate for the second quarter of 2012.

Reconciliation of effective tax rate	**2Q12**
Effective tax rate – GAAP	**15.8%**
Tax reduction related to litigation charge	**8.7**
Other	**1.6**
Effective tax rate – Operating basis – Non-GAAP	**26.1%**

The following table presents investment management fees net of performance fees.

Investment management and performance fees				**2Q12 vs.**	
(dollars in millions)	**2Q12**	1Q12	2Q11	**2Q11**	1Q12
Investment management and performance fees	**$ 797**	$ 745	$ 779	**2%**	7%
Less: Performance fees	**54**	16	18	**N/M**	N/M
Investment management fees	**$ 743**	$ 729	$ 761	**(2)%**	2%

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

Return on common equity and tangible common equity					
(dollars in millions)	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Net income applicable to common shareholders of The Bank of New York Mellon Corporation – GAAP	**$ 466**	$ 619	$ 735	**$ 1,085**	$ 1,360
Add: Amortization of intangible assets, net of tax	**61**	61	68	**122**	136
Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets – Non-GAAP	**527**	680	803	**1,207**	1,496
Add: M&I, litigation and restructuring charges	**225**	65	41	**290**	75
Net income applicable to common shareholders of The Bank of New York Mellon Corporation excluding amortization of intangible assets and M&I, litigation and restructuring charges – Non-GAAP	**$ 752**	$ 745	$ 844	**$ 1,497**	$ 1,571
Average common shareholders' equity	**$ 34,123**	$ 33,718	$ 33,464	**$ 33,920**	$ 33,147
Less: Average goodwill	**17,941**	17,962	18,193	**17,951**	18,157
Average intangible assets	**5,024**	5,121	5,547	**5,073**	5,605
Add: Deferred tax liability – tax deductible goodwill	**982**	972	895	**982**	895
Deferred tax liability – non-tax deductible intangible assets	**1,400**	1,428	1,630	**1,400**	1,630
Average tangible common shareholders' equity – Non-GAAP	**$ 13,540**	$ 13,035	$ 12,249	**$ 13,278**	$ 11,910
Return on common equity – GAAP *(a)*	**5.5%**	7.4%	8.8%	**6.4%**	8.3%
Return on common equity excluding amortization of intangible assets and M&I, litigation and restructuring charges – Non-GAAP *(a)*	**8.9%**	8.9%	10.1%	**8.9%**	9.6%
Return on tangible common equity – Non-GAAP *(a)*	**15.7%**	21.0%	26.3%	**18.3%**	25.3%
Return on tangible common equity excluding M&I, litigation and restructuring charges – Non-GAAP *(a)*	**22.4%**	23.0%	27.6%	**22.7%**	26.6%

(a) Annualized.

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

Pre-tax operating margin *(dollars in millions)*	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Income before income taxes – GAAP	**$ 589**	$ 885	$ 1,034	**$ 1,474**	$ 1,983
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	**29**	11	21	**40**	65
Add: Amortization of intangible assets	**97**	96	108	**193**	216
M&I, litigation and restructuring charges	**378**	109	63	**487**	122
Income before income taxes excluding net income (loss) attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets and M&I, litigation and restructuring charges – Non-GAAP	**$ 1,035**	$ 1,079	$ 1,184	**$ 2,114**	$ 2,256
Fee and other revenue – GAAP	**$ 2,826**	$ 2,838	$ 3,056	**$ 5,664**	$ 5,894
Income from consolidated investment management funds – GAAP	**57**	43	63	**100**	173
Net interest revenue – GAAP	**734**	765	731	**1,499**	1,429
Total revenue – GAAP	**3,617**	3,646	3,850	**7,263**	7,496
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	**29**	11	21	**40**	65
Total revenue excluding net income (loss) attributable to noncontrolling interests of consolidated investment management funds – Non-GAAP	**$ 3,588**	$ 3,635	$ 3,829	**$ 7,223**	$ 7,431
Pre-tax operating margin *(a)*	**16%**	24%	27%	**20%**	26%
Pre-tax operating margin excluding net income (loss) attributable to noncontrolling interests of consolidated investment management funds, amortization of intangible assets and M&I, litigation and restructuring charges – Non-GAAP *(a)*	**29%**	30%	31%	**29%**	30%

(a) Income before taxes divided by total revenue.

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

Equity to assets and book value per common share *(dollars in millions, unless otherwise noted)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
BNY Mellon shareholders' equity at period end – GAAP	**$ 34,533**	$ 34,000	$ 33,417	$ 33,851
Less: Preferred stock	**500**	-	-	-
BNY Mellon common shareholders' equity at period end – GAAP	**34,033**	34,000	33,417	33,851
Less: Goodwill	**17,909**	18,002	17,904	18,191
Intangible assets	**4,962**	5,072	5,152	5,514
Add: Deferred tax liability – tax deductible goodwill	**982**	972	967	895
Deferred tax liability – non-tax deductible intangible assets	**1,400**	1,428	1,459	1,630
Tangible BNY Mellon common shareholders' equity at period end – Non-GAAP	**$ 13,544**	$ 13,326	$ 12,787	$ 12,671
Total assets at period end – GAAP	**$ 330,283**	$ 300,169	$ 325,266	$ 304,706
Less: Assets of consolidated investment management funds	**10,955**	11,609	11,347	13,533
Subtotal assets of operations – Non-GAAP	**319,328**	288,560	313,919	291,173
Less: Goodwill	**17,909**	18,002	17,904	18,191
Intangible assets	**4,962**	5,072	5,152	5,514
Cash on deposit with the Federal Reserve and other central banks *(a)*	**72,838**	61,992	90,230	56,478
Tangible total assets of operations at period end – Non-GAAP	**$ 223,619**	$ 203,494	$ 200,633	$ 210,990
BNY Mellon shareholders' equity to total assets – GAAP	**10.5%**	11.3%	10.3%	11.1%
BNY Mellon common shareholders' equity to total assets – GAAP	**10.3%**	11.3%	10.3%	11.1%
Tangible BNY Mellon common shareholders' equity to tangible assets of operations – Non-GAAP	**6.1%**	6.5%	6.4%	6.0%
Period-end common shares outstanding *(in thousands)*	**1,181,298**	1,192,716	1,209,675	1,232,691
Book value per common share	**$ 28.81**	$ 28.51	$ 27.62	$ 27.46
Tangible book value per common share – Non-GAAP	**$ 11.47**	$ 11.17	$ 10.57	$ 10.28

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

The following table presents the calculation of Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP.

Calculation of Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP *(dollars in millions)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011	June 30, 2011
Total Tier 1 capital – Basel 1	**$ 15,722**	$ 15,695	$ 15,389	$ 14,892
Less: Trust preferred securities	**1,164**	1,669	1,659	1,669
Preferred stock	**500**	-	-	-
Total Tier 1 common equity	**$ 14,058**	$ 14,026	$ 13,730	$ 13,223
Total risk-weighted assets – Basel I	**$ 106,764**	$ 100,763	$ 102,255	$ 105,316
Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP	**13.2%**	13.9%	13.4%	12.6%

The following table presents income from consolidated investment management funds, net of net income (loss) attributable to noncontrolling interests.

Income from consolidated investment management funds, net of noncontrolling interests *(dollars in millions)*	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Income (loss) from consolidated investment management funds	**$ 57**	$ 43	$ 63	**$ 100**	$173
Less: Net income (loss) attributable to noncontrolling interests of consolidated investment management funds	**29**	11	21	**40**	65
Income from consolidated investment management funds, net of noncontrolling interests	**$ 28**	$ 32	$ 42	**$ 60**	$108

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

Income from consolidated investment management funds, net of noncontrolling interests *(dollars in millions)*	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Investment management and performance fees	**$ 20**	$ 22	$ 29	**$ 42**	$ 60
Other (Investment income)	**8**	10	13	**18**	48
Income from consolidated investment management funds, net of noncontrolling interests	**$ 28**	$ 32	$ 42	**$ 60**	$108

The following table presents fee and other revenue excluding the impact of the Shareowner Services business.

Fee and other revenue excluding Shareowner Services				**2Q12 vs.**		**Year-to-date**		**YTD12 vs.**
(dollars in millions)	**2Q12**	1Q12	2Q11	**2Q11**	**1Q12**	**2012**	2011	**YTD11**
Investment services fees:								
Asset servicing	**$ 950**	$ 943	$ 973	**(2)%**	**1%**	**$ 1,893**	$ 1,890	**-%**
Issuer services	**275**	251	314	**(12)**	**10**	**526**	606	**(13)**
Clearing services	**309**	303	292	**6**	**2**	**612**	584	**5**
Treasury services	**134**	136	134	**-**	**(1)**	**270**	268	**1**
Total investment services fees	**1,668**	1,633	1,713	**(3)**	**2**	**3,301**	3,348	**(1)**
Investment management and performance fees	**797**	745	779	**2**	**7**	**1,542**	1,543	**-**
Foreign exchange and other trading revenue	**180**	191	221	**(19)**	**(6)**	**371**	418	**(11)**
Distribution and servicing	**46**	46	49	**(6)**	**-**	**92**	102	**(10)**
Financing-related fees	**37**	44	47	**(21)**	**(16)**	**81**	88	**(8)**
Investment and other income	**51**	139	145	**(65)**	**(63)**	**190**	226	**(16)**
Total fee revenue	**2,779**	2,798	2,954	**(6)**	**(1)**	**5,577**	5,725	**(3)**
Net securities gains (losses)	**50**	40	48	**N/M**	**N/M**	**90**	53	**N/M**
Total fee and other revenue	**$ 2,829**	$ 2,838	$ 3,002	**(6)%**	**-%**	**$ 5,667**	$ 5,778	**(2)%**

Recent accounting and regulatory developments

Recently Issued Accounting Standards

ASU 2011-11 – Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities". Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of IFRS. The amendments are effective for annual reporting periods beginning on or after Jan. 1, 2013. An entity would be required to provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU will not impact our results of operations.

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

In July 2012, the FASB issued ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment". This guidance allows an entity an option to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired. If the intangible asset is impaired, an entity is required to perform the quantitative impairment test. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not that the asset is impaired. An entity choosing to perform the qualitative assessment would need to identify and consider the events and circumstances that, individually or in the aggregate, most significantly affect an indefinite-lived intangible asset's fair value. Examples of events and circumstances that should be considered, include deterioration in the entity's operating environment, entity-specific events, such as a change in management, and overall financial performance, such as negative or declining cash flows. An entity also should consider any positive and mitigating events and circumstances, as well as whether there have been changes to the carrying amount of the indefinite-lived intangible asset. An entity can choose to perform the qualitative assessment on none, some, or all of its indefinite-lived intangible assets. An entity can bypass the qualitative assessment and perform the quantitative impairment test for any indefinite-lived intangible in any period. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after Sept. 15, 2012. Early adoption is permitted.

Proposed Accounting Standards

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

In May 2010, the FASB issued a 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 preliminarily determined not to require certain financial assets to be measured at fair value on the balance sheet.

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 FASB reached tentative decisions in other areas, including classification and measurement of financial liabilities and the equity method of accounting.

The FASB tentatively decided that the business strategy should be determined by the business activities that an entity uses in acquiring and managing financial assets. The FASB plans to re-expose the proposed amendments for public comment. Both the FASB and the International Accounting Standards Board ("IASB") discussed effective dates pertaining to the financial instruments project and noted that such a date would not be for several years.

Supplementary Document - Impairment

On Jan. 31, 2011, the FASB issued a Supplementary Document, "Impairment." The Supplementary Document proposes to replace the incurred loss impairment model 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. In the second quarter of 2011, the FASB and the IASB revised the model from a two-category approach for splitting the debt investment portfolio to a three category approach to better reflect the general pattern of credit quality deterioration. The FASB and the IASB continue to develop the revised impairment model. An exposure draft with the new proposed model is targeted for 2012.

Proposed ASU – Revenue from Contracts with Customers

In June 2010, the FASB issued a proposed ASU, "Revenue from Contracts with Customers." This proposed ASU is the result of a joint project of the FASB and the 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 2011, the FASB and the IASB revised several aspects of the original proposal to include distinguishing between goods and services, segmenting contracts, accounting for warranty obligations and deferring contract origination costs.

In November 2011, the FASB re-exposed the proposed ASU. A final standard is expected to be issued in 2013. A retrospective application transition method would be required, but the FASB and IASB provided certain "transition reliefs" to reduce the burden on preparers. The FASB and IASB tentatively decided that the effective date of the proposed standard would not be earlier than annual reporting periods beginning on or after Jan. 1, 2015. The FASB decided to prohibit early application while the IASB decided to permit early application.

Proposed ASU – Principal versus Agent Analysis

In November 2011, the FASB issued a proposed ASU "Principal versus Agent Analysis". This proposed ASU would rescind the 2010 indefinite deferral of FAS 167 for certain investment funds, including mutual funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds, and amends the pre-existing guidance for evaluating consolidation of voting general partnerships and similar entities. The proposed ASU also amends the criteria for determining whether an entity is a variable interest entity under FAS 167, which could affect whether an entity is within its scope. Accordingly, certain funds that previously were not consolidated must be reviewed to determine whether they will now be required to be consolidated. The proposed accounting standard will continue to require BNY Mellon to determine whether or not it has a variable interest in a variable interest entity. However, consolidation of its variable interest entity and voting general partnership asset management funds will be based on whether or not BNY Mellon, as the asset manager, uses its power as a decision maker as either a principal or an agent. Based on a preliminary review of the proposed ASU, we do not expect to be required to consolidate additional mutual funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds. In addition, we expect to de-consolidate a substantial portion of the CLOs we currently consolidate, with further deconsolidation possible depending on future changes to BNY Mellon's investment in subordinated notes. The FASB is currently evaluating comment letters received and expects to issue a final ASU in the fourth quarter of 2012.

FASB and IASB project on Leases

In August 2010, the FASB and IASB issued a joint proposed ASU, "Leases". FASB has tentatively decided that lessees would apply a "right-of-use" accounting model. This would require the lessee to recognize both a right-of-use asset and a corresponding liability to make lease payments at the lease commencement date, both measured at the present value of the lease payments. The right-of-use asset would be amortized on a systematic basis that would reflect the pattern of consumption of the economic benefits of the leased asset. The liability to make lease payments would be subsequently de-recognized over time by applying the effective interest method to apportion the periodic payment to reductions in the liability to make lease payments and interest expense. Lessors would account for leases by applying a "receivable and residual" accounting approach. The lessor would recognize a right to receive lease payments and a residual asset at the date of the commencement of the lease. The lessor would initially measure the right to receive lease payments at the sum of the present value of the lease payments, discounted using the rate the lessor charges the lessee. The lessor would initially measure the residual asset as an allocation of the carrying amount of the underlying asset and would subsequently measure the residual asset by accreting it over the lease term, using the rate the lessor charges the lessee. The FASB is expected to re-expose the standard during 2012. A final standard is expected in 2013 with an effective date of 2016 or later.

Proposed ASU -- Disclosures about Liquidity Risk and Interest Rate Risk

In June 2012, the FASB issued a proposed ASU, "Disclosures about Liquidity Risk and Interest Rate Risk." This proposed ASU requires new qualitative and quantitative disclosures about liquidity and interest rate risk. The proposed disclosures are required for both interim and annual periods. Financial institutions would be required to provide a tabular liquidity gap maturity analysis that discloses carrying amounts of various classes of financial assets and liabilities categorized by their expected maturities. In addition, all companies would need to disclose in a tabular form by asset class, their available liquid funds and additional borrowing capacity. This disclosure would also be supplemented with a qualitative analysis. For interest rate risk, financial institutions would be required to disclose repricing gap analysis in a tabular form that would show how the carrying amounts of different classes of financial assets and liabilities reprice over specified time periods. In addition, financial institutions would also provide certain interest rate sensitivity disclosures about the effects on its net income. The proposed ASU does not include an effective date.

Adoption of new accounting standards

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

Regulatory developments

The following discussion should be read in conjunction with the "Business – Supervision and Regulation" and "Regulatory developments" sections in our 2011 Annual Report. We are currently assessing the following regulatory developments, which may have an impact on BNY Mellon's business.

Federal Reserve's Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies

As required by the Dodd-Frank Act, the Federal Reserve has proposed enhanced prudential standards applicable to bank holding companies ("BHCs") with total consolidated assets of $50 billion or more – like BNY Mellon (often referred to as "systemically important financial institutions" or "SIFIs"). The Dodd-Frank Act mandates that the requirements applicable to SIFIs be more stringent than those applicable to other financial companies. In December 2011, the Federal Reserve issued a Notice of Proposed Rulemaking establishing enhanced prudential standards for:

- risk-based capital requirements and leverage limits;
- stress testing of capital;
- liquidity requirements;
- overall risk management requirements; and
- concentration/credit exposure limits.

These "Proposed SIFI Rules" address a wide, diverse array of regulatory areas, each of which is highly complex. In some cases they would implement financial regulatory requirements being proposed for the first time, and in others overlap with related regulatory reforms. The Proposed SIFI Rules also address the Dodd-Frank Act's early remediation requirements for BHCs with total consolidated assets of $50 billion or more. The proposed remediation rules are designed to require action beginning in the earlier stages of a company's financial distress based on certain triggers, including capital and leverage, stress test results, liquidity and risk management. The full impact of the Proposed SIFI Rules will not be known until the rules, and other regulatory initiatives that overlap with the rules, are finalized.

Resolution Planning

As required by the Dodd-Frank Act, the Federal Reserve and FDIC jointly issued a final rule requiring certain organizations, including each BHC with consolidated assets of $50 billion or more, to report periodically to regulators a resolution plan for its rapid and orderly resolution in the event of material financial distress or failure. In addition, the FDIC has issued a final rule that requires insured depository institutions with $50 billion or more in total assets, such as The Bank of New York Mellon, to submit to the FDIC periodic plans for resolution in the event of the institution's failure.

The two resolution plan rules are complementary and we are currently developing our initial resolution plans. Our initial plans are required to be submitted to the regulators by Oct. 1, 2012. Following the initial submissions, we are required to submit annual resolution plans by July 1 of each subsequent year.

Federal Reserve's Comprehensive Capital Analysis and Review

In November 2011, the Federal Reserve published a final rule requiring BHCs (including BNY Mellon) with $50 billion or more of total consolidated assets to submit annual capital plans to their respective Federal Reserve Bank. The capital analysis and review process provided for in the rule is known as the Comprehensive Capital Analysis and Review, or "CCAR". The capital plans are required to be submitted on an annual basis. Covered BHCs are required to collect and report certain related data on a quarterly basis to allow the Federal Reserve to monitor the companies' progress against their annual capital plans. The comprehensive capital plans, which are prepared using Basel I capital guidelines, include a view of capital adequacy under four scenarios – a BHC-defined baseline scenario, a baseline scenario provided by the Federal Reserve, at least one BHC-defined stress scenario, and a stress scenario provided by the Federal Reserve. Covered BHCs, including BNY Mellon, may pay dividends and repurchase stock only in accordance with a capital plan that has been reviewed by the Federal Reserve and as to which the Federal Reserve has not objected. The rules provide that the Federal Reserve may object to a capital plan if the plan does not show that the covered BHC will meet all minimum regulatory capital ratios and maintain a ratio of Basel I Tier 1 common equity to risk-weighted assets of at least 5% on a *pro forma* basis under expected and stressful conditions throughout the nine-quarter planning horizon covered by the capital plan. The rules also require, among other things, that a covered BHC may not make a capital distribution unless, after giving effect to the distribution, it will meet all minimum regulatory capital ratios and have a ratio of Basel I Tier 1 common equity to risk-weighted assets of at least 5%. As part of this process, BNY Mellon also provides the Federal Reserve with projections covering the time period it will take us to fully comply with Basel III guidelines, including the 7% Tier 1 common equity, 8.5% Tier 1 capital and 3% leverage ratios as well as granular components of those elements, as described further under "Basel III and U.S. Capital Reform". Our capital plan was submitted on Jan. 9, 2012. On March 13, 2012, BNY Mellon received notice that the Federal Reserve did not object to our capital plan for 2012, which includes the repurchase of up to $1.16 billion of outstanding common stock and the continuation of our 13 cents per share quarterly cash dividend.

The purpose of the Federal Reserve's capital plan review is to ensure that these BHCs have robust, forward-looking capital planning processes that account for each BHC's unique risks and that permit continued operations during times of economic and financial stress. The Federal Reserve will apply particularly close scrutiny to capital plans contemplating dividend payout ratios exceeding 30% of projected after-tax net income.

Volcker Rule

The section in the Dodd-Frank Act that is commonly referenced as the "Volcker Rule" requires the U.S. financial regulatory agencies to adopt implementing rules that prohibit banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain hedge funds, private equity funds and other designated funds ("covered funds"). The Federal regulators proposed rules to implement the Volcker Rule, and until those rules are finalized, their application and impact will remain uncertain. BNY Mellon may be affected by an overly inclusive designation of covered funds, proposed limits on inter-affiliate transactions that may constrain some of our custody services and the treatment of overseas directed trustee arrangements. The Federal Reserve recently issued guidance that gives banks and their affiliates until July 21, 2014 to bring their covered activities and investments into conformance with the regulations of the Volcker Rule, which have yet to be finalized and adopted.

Proposed rules removing references to credit ratings

The Dodd-Frank Act requires that all Federal agencies remove from their regulations references to and requirements of reliance on credit ratings and replace them with appropriate alternatives for evaluating creditworthiness. The Federal banking agencies have recently issued Notices of Proposed Rulemaking (and applicable related guidance) in connection with implementing these requirements. In December 2011, the Office of the Comptroller of the Currency ("OCC"), Federal Reserve, and FDIC issued a joint Notice of Proposed Rulemaking applicable to certain U.S. banking organizations with significant trading operations that proposed standards of creditworthiness to be used in place of credit ratings when calculating the specific risk capital requirements for covered debt and securitization positions. The agencies finalized rules relating to capital requirements and investment securities in June 2012.

Task Force on Tri-Party Repo Infrastructure

Regulatory agencies worldwide have begun to re-examine systemic risks to various financial markets. One of the markets that regulatory agencies are reviewing, and in which we participate as a clearing and custody bank, is the tri-party repurchase transaction market, or "tri-party repo market." The Federal Reserve Bank of New York sponsored a Task Force on Tri-Party Repo Infrastructure Reform to examine the risks in the tri-party repo market and to decide what changes should be implemented so that such risks may be mitigated or avoided in future financial crises. The Task Force issued its final report regarding the tri-party repo market on Feb. 15, 2012. BNY Mellon is working to implement the Task Force's recommendations on its tri-party repo business activities, including the practical elimination of secured intra-day credit. BNY Mellon has taken several steps in that regard, such as the reduction of the length of time for a majority of the intra-day credit exposure, the implementation of auto substitution of collateral and the introduction of three-way trade confirmations.

Since May 2010, the Federal Reserve Bank of New York has released monthly reports on the tri-party repo market, including information on aggregate volumes of collateral used in all tri-party repo transactions by asset class, concentrations, and margin levels, which is available at http://www.newyorkfed.org/tripartyrepo/margin_data.html.

Basel III and U.S. Capital Reform

The U.S. federal bank regulatory agencies' current general risk-based capital guidelines are based upon the 1988 Capital Accord ("Basel I") 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 as "Basel II" that sets capital requirements for operational risk and refines the existing capital requirements for credit risk. The U.S. banking agencies have adopted Basel II's advanced internal ratings based approach for credit risk and its advanced measurement approach for operational risk for advanced approaches banks (applicable to banking institutions like BNY Mellon and its depository institution subsidiaries with $250 billion or more of total consolidated assets or $10 billion or more of foreign exposures). The U.S. banking agencies' Basel I risk-based capital guidelines, their Basel II advanced approaches and the Basel Committee's Basel III standards are described under "Business – Supervision and Regulation" in Part I, Item 1 of our 2011 Annual Report.

In response to Section 171 of the Dodd-Frank Act, known as the "Collins Amendment", the U.S. banking agencies adopted a final rule in 2011 to replace the transitional floors in the Federal banking agencies' Basel II approaches with a permanent capital floor equal to the risk-based capital requirements under the banking agencies' Basel I risk-based capital guidelines. As a result, U.S. advanced approaches banking organizations will be required to calculate their risk-based capital ratios under both the agencies general risk-based capital rules and their Basel II-based advanced approaches. The advanced approaches banking organizations will continue to use the current Basel I rules for purposes of the Collins Amendment floor until Jan. 1, 2015 which is the effective date of the standardized approach, discussed below, unless they elect to early adopt.

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". The NPRs, released by the U.S. banking agencies in June 2012, would both implement the capital provisions of Basel III for U.S. banking institutions and substantially revise the agencies' Basel I risk-based capital guidelines – as proposed, referred to in the NPRs as the "standardized approach" - to make them more risk sensitive. Although the NPRs have not yet been published in the Federal Register, the agencies indicated preliminarily that comments on the NPRs would be due on Sept. 7, 2012. As proposed by the NPRs, the implementation of Basel III advanced approach will become effective Jan. 1, 2013, with phase-in periods that are consistent with Basel III and described under "Business – Supervision and Regulation" in our 2011 Annual Report. If adopted, these rules will be fully phased-in by Jan. 1, 2019. The new risk-weight categories in the standardized approach will not become effective until Jan. 1, 2015. The general impact of the NPRs is described below.

Basel III, including as proposed by the NPRs to be implemented in the U.S., would redefine the components of capital in the numerators of regulatory capital ratios in a more narrow way than existing Basel I and Basel II standards, would increase the minimum risk-based capital ratios under both the agencies' Basel II advanced approaches and Basel I risk-based capital guidelines, and primarily, with respect to securitizations and exposures to certain counterparties, would change the measure of risk-weighted assets in the denominators of regulatory capital ratios. At June 30, 2012, our estimated Basel III Tier 1 common equity ratio was 8.7%, on a fully phased-in basis, based upon our understanding of the NPRs and the final market risk rules approved by the U.S. banking agencies. The increase in the ratio from 7.6% at March 31, 2012, which was calculated under prior Basel III guidance and the proposed market risk rule, was primarily due to the reduction in risk-weighted assets relating to the treatment of sub-investment grade securities, partially offset by the treatment of investment grade securitizations and financial institution exposure. The positive impact of the NPRs was partially offset by balance sheet growth in the second quarter of 2012.

The components of the NPRs related to the standardized approach would amend the agencies' Basel I risk-based capital guidelines and replace the risk-weighting categories currently used to calculate risk-weighted assets in the denominator of capital ratios with a broader array of risk weighting categories that are intended to be more risk sensitive. The new risk-weights for the standardized approach range from 0% to 600% as compared to the risk-weights of 0% to 100% in the agencies' existing Basel I risk-based capital guidelines. Higher risk-weights would apply to a variety of exposures, including certain securitization exposures, equity exposures, claims on securities firms and exposures to counterparties on OTC derivatives. Compared with Basel I, the risk-weighting changes likely to be most significant for BNY Mellon are the replacement of the 20% risk-weight for banks with OECD country risk classification ratings, increased risk-weights for residential mortgages, the removal of the 50% risk-weight cap on derivative transactions and the elimination of the 0% risk-weight for commitments of less than one year.

The NPRs, consistent with Basel III, re-defined the components of capital and require higher capital ratios for all banks. As a result, 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).

Additionally, the ratios above could be impacted by a new Tier 1 common equity surcharge to certain "domestic" systemically important banks ("D-SIBs") and "global" systemically important banks ("G-SIBs") described below.

All banking institutions will continue to be subject to the U.S. banking agencies' existing minimum leverage ratio of 4.0% (calculated as the ratio of Tier 1 capital to average consolidated assets as reflected on the institution's consolidated financial statements, net of amounts deducted from capital). Additionally, advanced approaches banking institutions would become subject to a new leverage ratio commencing Jan. 1, 2015 with full implementation on Jan. 1, 2018. The new leverage ratio would have a minimum of 3% (calculated as the ratio of Tier 1 capital to average balance sheet exposures plus certain average off-balance sheet exposures).

The NPRs apply Basel III's capital conservation buffer to all banking institutions but apply its countercyclical capital buffer only to advance approaches banks. These buffers are described under "Business – Supervision and Regulation" in our 2011 Annual Report.

In November 2011 the Basel Committee issued final provisions applying a new Tier 1 common equity surcharge to certain G-SIBs, including BNY Mellon. In its Proposed SIFI Rules and the NPRs, the Federal Reserve indicated that it intends to propose, in a separate rulemaking, a Tier 1 common equity surcharge for G-SIBs based on the Basel Committee's final rules. Each G-SIB would initially be assigned to one of four "buckets", with the capital surcharges for those buckets ranging from 1% to 2.5%. There would be an additional 3.5% bucket that could be applied to a G-SIB that materially increases its global systemic importance, for example, by increasing total assets. The G-SIB equity surcharge provisions, like the rest of Basel III and the Dodd-Frank Act provisions referenced above, are subject to interpretation and implementation by U.S. regulatory authorities.

In June 2012, the Basel Committee published a consultative document proposing principles to be applied by national regulators to apply a new Tier 1 common equity surcharge to certain D-SIBs. Comments were due by Aug. 1, 2012. The consultative document is much less detailed than the G-SIB proposal and does not, for example, specify the amount or potential range of a surcharge. It provides that if a banking institution in a particular country is identified as both a G-SIB and a D-SIB, then the surcharge will be the higher of the applicable G-SIB or D-SIB surcharge. Because of the generality of the proposal, BNY Mellon is not able to evaluate its potential impact on BNY Mellon at this point.

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.

Capital disclosure requirements

In December 2011, the Basel Committee issued a consultative document on the *Definition of capital disclosure requirements*, which proposes disclosure requirements that aim to improve the transparency and comparability of a bank's capital base. The consultative document includes the following:

- A common template for banks to use in reporting the breakdown of their regulatory capital when the transition period for the phasing-in of deductions ends on Jan. 1, 2018;
- A 3-step approach for banks to follow to ensure that there is full reconciliation of all regulatory capital elements back to the published financial statements;
- A common template for banks to use to meet the Basel III requirement to provide a description of the main features of capital instruments;
- Proposals on how banks should meet the Basel III requirement to provide the full terms and conditions of capital instruments on their websites and the requirement to report the calculation of any ratios involving components of regulatory capital; and
- A template for banks to use during the transition period.

The Basel Committee proposes that banks comply with the disclosure requirements set out in the consultative document from the date of publication of their first set of financial statements relating to a balance sheet date on or after Jan. 1, 2013 (with the exception of the post-Jan. 1, 2018 template). Furthermore, it is proposed that banks publish this disclosure with the same frequency as the publication of their financial statements.

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

In November 2008, the SEC proposed a "roadmap" for phasing in mandatory IFRS filings by U.S. public companies. The roadmap is conditional on progress towards milestones that would demonstrate improvements in both the infrastructure of international standard setting and the preparation of the U.S. financial reporting community.

In February 2010, the SEC issued a statement confirming their position that they continue to believe that a single set of high-quality, globally accepted accounting standards would benefit U.S. investors. The SEC continues to support the dual goals of improving financial reporting in the United States and reducing country-by-country disparities in financial reporting. The SEC is developing a work plan to aid in its evaluation of the impact of IFRS on the U.S. securities market.

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

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

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, Hong Kong, Canada and South Korea.

Proposed Update to Internal Controls – Integrated Framework

In December 2011, The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued for public comment a proposed update to Internal Control - Integrated Framework. The original Framework, issued in 1992, is used by most U.S. public companies and many others to evaluate and report on the effectiveness of their internal control over external financial reporting.

Since the original Framework was introduced, business has become increasingly global and complex. Regulatory regimes also have expanded, and additional forms of external reporting are emerging. The COSO Board has updated the original Framework to make it more relevant to investors and other stakeholders.

The more significant proposed changes to the original Framework include: applying a principles-based approach, clarifying the role of objective-setting in internal control, reflecting the increased relevance of technology, enhancing governance concepts, expanding the objectives of financial reporting, enhancing consideration of anti-fraud expectations, and considering different business models and organizational structures.

The final document is expected to be issued in the first quarter of 2013.

Government monetary policies and competition

Government monetary policies

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

Competition

BNY Mellon is subject to intense competition in all aspects and areas of our business. Our Investment Management business competes with asset management firms, hedge funds, investment banking companies, and other financial services companies, including trust banks, brokerage firms, and insurance companies. These firms and companies may be domiciled domestically or internationally. Our Investment Services business competes with domestic and foreign banks that offer institutional trust, custody and cash management products, as well as a wide range of technologically capable service providers, such as data processing and other firms that rely on automated data transfer services for institutional and retail customers. Competition is based on a number of factors including, among others, customer service, quality and range of products and services offered, price, reputation, interest rates, lending limits and customer convenience.

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

In recent years there has been substantial consolidation among companies in the financial services industry. Many broad-based financial services firms now have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage and asset management, which may enhance their competitive position.

As part of our business strategy, we seek to distinguish ourselves from competitors by the level of service we deliver to our clients. We also believe that technological innovation is an important competitive factor, and, for this reason, have made and continue to make substantial investments in this area. The ability to recover quickly from unexpected events is a competitive factor, and we have devoted significant resources to being able to implement this. See Item 1, "Business – Competition" and Item 1A "Risk Factors – Competition – We are subject to intense competition in all aspects of our business, which could negatively affect our ability to maintain or increase our profitability" in our 2011 Annual Report.

Website information

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

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

The contents of the website listed above or any other websites referenced herein are not incorporated into this Quarterly Report on Form 10-Q.

The SEC reports, the Corporate Governance Guidelines, Directors Code of Conduct and committee charters are available in print to any shareholder who requests them. Requests should be sent by email to corpsecretary@bnymellon.com or by mail to the Secretary of The Bank of New York Mellon Corporation, One Wall Street, New York, NY 10286.

Item 1. Financial Statements

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

Consolidated Income Statement (unaudited)

(in millions)	Quarter ended June 30, 2012	Quarter ended March 31, 2012	Quarter ended June 30, 2011	Year-to-date June 30, 2012	Year-to-date June 30, 2011
Fee and other revenue					
Investment services fees:					
Asset servicing	**$ 950**	$ 943	$ 973	**$ 1,893**	$ 1,890
Issuer services	**275**	251	365	**526**	716
Clearing services	**309**	303	292	**612**	584
Treasury services	**134**	136	134	**270**	268
Total investment services fees	**1,668**	1,633	1,764	**3,301**	3,458
Investment management and performance fees	**797**	745	779	**1,542**	1,543
Foreign exchange and other trading revenue	**180**	191	222	**371**	420
Distribution and servicing	**46**	46	49	**92**	102
Financing-related fees	**37**	44	49	**81**	92
Investment and other income	**48**	139	145	**187**	226
Total fee revenue	**2,776**	2,798	3,008	**5,574**	5,841
Net securities gains (losses) – including other-than-temporary impairment	**70**	73	54	**142**	32
Noncredit-related gains (losses) on securities not expected to be sold (recognized in OCI)	**20**	33	6	**52**	(21)
Net securities gains (losses)	**50**	40	48	**90**	53
Total fee and other revenue	**2,826**	2,838	3,056	**5,664**	5,894
Operations of consolidated investment management funds					
Investment income	**152**	153	171	**305**	393
Interest of investment management fund note holders	**95**	110	108	**205**	220
Income (loss) from consolidated investment management funds	**57**	43	63	**100**	173
Net interest revenue					
Interest revenue	**875**	912	887	**1,787**	1,735
Interest expense	**141**	147	156	**288**	306
Net interest revenue	**734**	765	731	**1,499**	1,429
Provision for credit losses	**(19)**	5	-	**(14)**	-
Net interest revenue after provision for credit losses	**753**	760	731	**1,513**	1,429
Noninterest expense					
Staff	**1,415**	1,453	1,463	**2,868**	2,887
Professional, legal and other purchased services	**309**	299	301	**608**	584
Net occupancy	**141**	147	161	**288**	314
Software	**127**	119	121	**246**	243
Distribution and servicing	**103**	101	109	**204**	220
Furniture and equipment	**82**	86	82	**168**	166
Sub-custodian	**70**	70	88	**140**	156
Business development	**71**	56	73	**127**	129
Other	**254**	220	247	**474**	476
Amortization of intangible assets	**97**	96	108	**193**	216
Merger and integration, litigation and restructuring charges	**378**	109	63	**487**	122
Total noninterest expense	**3,047**	2,756	2,816	**5,803**	5,513
Income					
Income before income taxes	**589**	885	1,034	**1,474**	1,983
Provision for income taxes	**93**	254	277	**347**	556
Net income	**496**	631	757	**1,127**	1,427
Net (income) loss attributable to noncontrolling interests (includes $(29), $(11), $(21), $(40) and $(65) related to consolidated investment management funds, respectively)	**(30)**	(12)	(22)	**(42)**	(67)
Net income applicable to common shareholders of The Bank of New York Mellon Corporation	**$ 466**	$ 619	$ 735	**$ 1,085**	$ 1,360

Consolidated Income Statement (unaudited) – continued

Reconciliation of net income to the net income applicable to the common shareholders of The Bank of New York Mellon Corporation *(in millions)*	Quarter ended **June 30, 2012**	Quarter ended March 31, 2012	Quarter ended June 30, 2011	Year-to-date **June 30, 2012**	Year-to-date June 30, 2011
Net income	**$ 496**	$ 631	$ 757	**$ 1,127**	$ 1,427
Net (income) loss attributable to noncontrolling interests	**(30)**	(12)	(22)	**(42)**	(67)
Net income applicable to the common shareholders of The Bank of New York Mellon Corporation	**466**	619	735	**1,085**	1,360
Less: Earnings allocated to participating securities	**7**	8	8	**15**	14
Change in the excess of redeemable value over the fair value of noncontrolling interests	**1**	(6)	-	**(5)**	6
Net income applicable to the common shareholders of The Bank of New York Mellon Corporation after required adjustments for the calculation of basic and diluted earnings per share	**$ 458**	$ 617	$ 727	**$ 1,075**	$ 1,340

Average common shares and equivalents outstanding of The Bank of New York Mellon Corporation *(in thousands)*	Quarter ended **June 30, 2012**	Quarter ended March 31, 2012	Quarter ended June 30, 2011	Year-to-date **June 30, 2012**	Year-to-date June 30, 2011
Basic	**1,181,350**	1,193,931	1,230,406	**1,187,649**	1,232,232
Common stock equivalents	**9,414**	8,688	9,318	**9,263**	10,138
Less: Participating securities	**(7,779)**	(7,061)	(6,014)	**(7,648)**	(6,354)
Diluted	**1,182,985**	1,195,558	1,233,710	**1,189,264**	1,236,016
Anti-dilutive securities *(a)*	**94,650**	94,498	88,938	**93,315**	86,988

Earnings per share applicable to the common shareholders of The Bank of New York Mellon Corporation *(b)* *(in dollars)*	Quarter ended **June 30, 2012**	Quarter ended March 31, 2012	Quarter ended June 30, 2011	Year-to-date **June 30, 2012**	Year-to-date June 30, 2011
Basic	**$ 0.39**	$ 0.52	$0.59	**$ 0.91**	$1.09
Diluted	**$ 0.39**	$ 0.52	$0.59	**$ 0.90**	$1.08

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

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

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Comprehensive Income Statement (unaudited)

(in millions)	Quarter ended June 30, 2012	Quarter ended March 31, 2012	Quarter ended June 30, 2011	Year-to-date June 30, 2012	Year-to-date June 30, 2011
Net income	**$ 496**	$ 631	$ 757	**$ 1,127**	$ 1,427
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments arising during the period	**(265)**	172	121	**(93)**	359
Unrealized gain (loss) on assets available-for-sale:					
Unrealized gain (loss) arising during the period	**197**	237	159	**434**	294
Reclassification adjustment	**(35)**	(24)	(28)	**(59)**	(30)
Total unrealized gain (loss) on assets available-for-sale	**162**	213	131	**375**	264
Defined benefit plans:					
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	**24**	27	17	**51**	34
Total defined benefit plans	**24**	27	17	**51**	34
Net unrealized gain (loss) on cash flow hedges:					
Unrealized hedge gain (loss) arising during the period	**6**	-	(1)	**6**	(1)
Reclassification adjustment	**(6)**	3	1	**(3)**	1
Total unrealized gain (loss) on cash flow hedges	**-**	3	-	**3**	-
Total other comprehensive income (loss), net of tax *(a)*	**(79)**	415	269	**336**	657
Net (income) loss attributable to noncontrolling interests	**(30)**	(12)	(22)	**(42)**	(67)
Other comprehensive (income) loss attributable to noncontrolling interests	**28**	(17)	(17)	**11**	(53)
Net comprehensive income (loss) applicable to the common shareholders of The Bank of New York Mellon Corporation	**$ 415**	$ 1,017	$ 987	**$ 1,432**	$ 1,964

(a) Other comprehensive income (loss) attributable to The Bank of New York Mellon Corporation shareholders was $(51) million for the quarter ended June 30, 2012, $398 million for the quarter ended March 31, 2012, $252 million for the quarter ended June 30, 2011, $347 million for the six months ended June 30, 2012 and $604 million for the six months ended June 30, 2011.

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

Consolidated Balance Sheet (unaudited)

(dollar amounts in millions, except per share amounts)	**June 30, 2012**	Dec. 31, 2011
Assets		
Cash and due from:		
Banks	**$ 4,522**	$ 4,175
Interest-bearing deposits with the Federal Reserve and other central banks	**76,243**	90,243
Interest-bearing deposits with banks	**39,743**	36,321
Federal funds sold and securities purchased under resale agreements	**8,543**	4,510
Securities:		
Held-to-maturity (fair value of $8,869 and $3,540)	**8,794**	3,521
Available-for-sale	**84,540**	78,467
Total securities	**93,334**	81,988
Trading assets	**6,909**	7,861
Loans	**45,431**	43,979
Allowance for loan losses	**(362)**	(394)
Net loans	**45,069**	43,585
Premises and equipment	**1,711**	1,681
Accrued interest receivable	**628**	660
Goodwill	**17,909**	17,904
Intangible assets	**4,962**	5,152
Other assets (includes $1,410 and $1,848, at fair value)	**19,755**	19,839
Subtotal assets of operations	**319,328**	313,919
Assets of consolidated investment management funds, at fair value:		
Trading assets	**10,399**	10,751
Other assets	**556**	596
Subtotal assets of consolidated investment management funds, at fair value	**10,955**	11,347
Total assets	**$ 330,283**	$ 325,266
Liabilities		
Deposits:		
Noninterest-bearing (principally U.S. offices)	**$ 76,933**	$ 95,335
Interest-bearing deposits in U.S. offices	**49,956**	41,231
Interest-bearing deposits in Non-U.S. offices	**94,255**	82,528
Total deposits	**221,144**	219,094
Federal funds purchased and securities sold under repurchase agreements	**9,162**	6,267
Trading liabilities	**6,940**	8,071
Payables to customers and broker-dealers	**13,305**	12,671
Commercial paper	**1,564**	10
Other borrowed funds	**1,374**	2,174
Accrued taxes and other expenses	**5,969**	6,235
Other liabilities (includes allowance for lending related commitments of $105 and $103, also includes $455 and $382, at fair value)	**6,114**	6,525
Long-term debt (includes $339 and $326, at fair value)	**19,536**	19,933
Subtotal liabilities of operations	**285,108**	280,980
Liabilities of consolidated investment management funds, at fair value:		
Trading liabilities	**9,752**	10,053
Other liabilities	**38**	32
Subtotal liabilities of consolidated investment management funds, at fair value	**9,790**	10,085
Total liabilities	**294,898**	291,065
Temporary equity		
Redeemable noncontrolling interest	**130**	114
Permanent equity		
Preferred stock – par value $0.01 per share; authorized 100,000,000 preferred shares; issued 5,001 and - shares	**500**	-
Common stock – par value $0.01 per share; authorized 3,500,000,000 common shares; issued 1,251,527,230 and 1,249,061,305 shares	**12**	12
Additional paid-in capital	**23,366**	23,185
Retained earnings	**13,588**	12,812
Accumulated other comprehensive loss, net of tax	**(1,280)**	(1,627)
Less: Treasury stock of 70,229,278 and 39,386,698 common shares, at cost	**(1,653)**	(965)
Total The Bank of New York Mellon Corporation shareholders' equity	**34,533**	33,417
Non-redeemable noncontrolling interests of consolidated investment management funds	**722**	670
Total permanent equity	**35,255**	34,087
Total liabilities, temporary equity and permanent equity	**$ 330,283**	$ 325,266

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Cash Flows (unaudited)

(in millions)	Six months ended June 30, 2012	2011
Operating activities		
Net income	**$ 1,127**	$ 1,427
Net (income) attributable to noncontrolling interests	**(42)**	(67)
Net income applicable to common shareholders of The Bank of New York Mellon Corporation	**1,085**	1,360
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for credit losses	**(14)**	-
Depreciation and amortization	**598**	366
Deferred tax (benefit) expense	**(285)**	251
Net securities (gains) and venture capital (income)	**(95)**	(74)
Change in trading activities	**(179)**	36
Change in accruals and other, net	**(736)**	(942)
Net cash provided by operating activities	**374**	997
Investing activities		
Change in interest-bearing deposits with banks	**(3,502)**	(8,684)
Change in interest-bearing deposits with Federal Reserve and other central banks	**14,000**	(37,729)
Change in loans	**(1,424)**	(4,702)
Purchases of securities held-to-maturity	**(3,123)**	(833)
Paydowns of securities held-to-maturity	**189**	99
Maturities of securities held-to-maturity	**403**	505
Purchases of securities available-for-sale	**(24,126)**	(12,885)
Sales of securities available-for-sale	**5,577**	5,315
Paydowns of securities available-for-sale	**4,784**	4,451
Maturities of securities available-for-sale	**5,447**	2,774
Sales of loans and other real estate	**160**	362
Change in federal funds sold and securities purchased under resale agreements	**(4,034)**	120
Change in seed capital investments	**(2)**	228
Purchases of premises and equipment/capitalized software	**(276)**	(367)
Acquisitions, net cash	**(4)**	(20)
Proceeds from the sale of premises and equipment	**5**	5
Other, net	**133**	(663)
Net cash (used for) investing activities	**(5,793)**	(52,024)
Financing activities		
Change in deposits	**2,373**	50,576
Change in federal funds purchased and securities sold under repurchase agreements	**2,895**	1,970
Change in payables to customers and broker-dealers	**634**	1,550
Change in other borrowed funds	**(773)**	(1,084)
Change in commercial paper	**1,554**	26
Net proceeds from the issuance of long-term debt	**1,264**	1,199
Repayments of long-term debt	**(1,714)**	(748)
Proceeds from the exercise of stock options	**6**	16
Issuance of common stock	**13**	12
Issuance of preferred stock	**500**	-
Treasury stock acquired	**(687)**	(333)
Common cash dividends paid	**(314)**	(274)
Other, net	**30**	(10)
Net cash provided by financing activities	**5,781**	52,900
Effect of exchange rate changes on cash	**(15)**	12
Change in cash and due from banks		
Change in cash and due from banks	**347**	1,885
Cash and due from banks at beginning of period	**4,175**	3,675
Cash and due from banks at end of period	**$ 4,522**	$ 5,560
Supplemental disclosures		
Interest paid	**$ 292**	$ 347
Income taxes paid	**460**	249
Income taxes refunded	**7**	168

See accompanying Notes to Consolidated Financial Statements.

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

Consolidated Statement of Changes in Equity (unaudited)

	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 of consolidated investment management funds	Total permanent equity	Redeemable non-controlling interests/ temporary equity
Balance at Dec. 31, 2011	$ -	$ 12	$ 23,185	$ 12,812	$ (1,627)	$ (965)	$ 670	$ 34,087 *(a)*	$ 114
Shares issued to shareholders of noncontrolling interests	-	-	-	-	-	-	-	-	**24**
Redemption of subsidiary shares from noncontrolling interests	-	-	-	-	-	-	-	-	**(4)**
Other net changes in noncontrolling interests	-	-	**(5)**	**5**	-	-	**23**	**23**	**(6)**
Net income	-	-	-	**1,085**	-	-	**40**	**1,125**	**2**
Other comprehensive income	-	-	-	-	**347**	-	**(11)**	**336**	-
Dividends on common stock at $0.26 per share	-	-	-	**(314)**	-	-	-	**(314)**	-
Repurchase of common stock	-	-	-	-	-	**(687)**	-	**(687)**	-
Common stock issued under:									
Employee benefit plans	-	-	**15**	-	-	-	-	**15**	-
Direct stock purchase and dividend reinvestment plan	-	-	**10**	-	-	-	-	**10**	-
Preferred stock issued	**500**	-	-	-	-	-	-	**500**	-
Stock awards and options exercised	-	-	**161**	-	-	**(1)**	-	**160**	-
Balance at June 30, 2012	**$ 500**	**$ 12**	**$ 23,366**	**$ 13,588**	**$ (1,280)**	**$ (1,653)**	**$ 722**	**$ 35,255***(a)*	**$ 130**

(a) Includes total The Bank of New York Mellon Corporation common shareholders' equity of $33,417 million at Dec. 31, 2011 and $34,533 million at June 30, 2012.

See accompanying Notes to Consolidated Financial Statements.

Note 1 – Basis of presentation

Basis of presentation

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

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods have been made. These financial statements should be read in conjunction with BNY Mellon's Annual Report on Form 10-K for the year ended Dec. 31, 2011. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with current period presentation.

Use of estimates

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

Note 2 – Accounting changes and new accounting guidance

ASU 2011-04 - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU intends to improve consistency in the application of fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The ASU clarifies the application of existing fair value measurement and disclosure requirements including 1) the application of concepts of highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of non-financial assets and are not relevant when measuring the fair value of financial assets or any liabilities, 2) measuring the fair value of an instrument classified in shareholders' equity from the perspective of a market participant that holds that instrument as an asset, and 3) disclosures about quantitative information regarding the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. This ASU also requires the disclosure of the level of the fair value hierarchy for financial instruments not reported at fair value on the balance sheet. This ASU did not impact our results of operations. See Note 14 "Fair value measurement" for the disclosures.

ASU 2011-05 – Presentation of Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income." This ASU increased the prominence of other comprehensive income in the financial statements. The guidance eliminated the option to present comprehensive income and its components in the Statement of Changes in Shareholders' Equity, and requires the disclosure of comprehensive income and its components in one of two ways: a single continuous statement or in two separate but consecutive statements. The single continuous statement presents other comprehensive income and its components on the income statement. Under the two-statement approach, the first statement would include components of net income and the second statement would include other comprehensive income and its components. The ASU did not change the components of other comprehensive income. This ASU did not impact our results of operations. BNY Mellon adopted the two-statement approach. See the Consolidated Comprehensive Income Statement and Note 13 "Other comprehensive income" for the disclosures.

ASU 2011-08 - Testing Goodwill for Impairment

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment", which amended the guidance in ASC 350 for goodwill impairment. This ASU permits entities performing goodwill impairment tests the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., Step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The ASU did not change how goodwill was calculated or assigned to reporting units, or the annual goodwill impairment testing requirement. In addition, the ASU does not amend the requirement to perform interim goodwill impairment tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider. The amendments were effective for annual and interim goodwill impairment tests performed for fiscal years beginning after Dec. 15, 2011.

Note 3 – Acquisitions and dispositions

We sometimes structure our acquisitions with both an initial payment and later contingent payments tied to post-closing revenue or income growth. For acquisitions completed prior to Jan. 1, 2009, we record the fair value of contingent payments as an additional cost of the entity acquired in the period that the payment becomes probable. For acquisitions completed after Jan. 1, 2009, subsequent changes in the fair value of a contingent consideration liability will be recorded through the income statement. Contingent payments totaled $1 million in the second quarter of 2012 and $4 million in the first six months of 2012.

At June 30, 2012, we were potentially obligated to pay additional consideration which, using reasonable assumptions for the performance of the acquired companies and joint ventures based on contractual agreements, could range from $3 million to $35 million over the next two years.

Acquisitions in 2011

On July 1, 2011, BNY Mellon acquired the wealth management operations of Chicago-based Talon Asset Management ("Talon") for cash of $11 million. We are obligated to pay, upon occurrence of certain events, contingent additional consideration of $5 million, which was recorded as goodwill at the acquisition date. Talon manages assets of wealthy families and institutions. Goodwill related to this acquisition, including contingent additional consideration, is included in our Investment Management business and totaled $10 million and is deductible for tax purposes. Customer relationship intangible assets related to this acquisition are included in our Investment Management business, with a life of 20 years, and totaled $6 million.

On Nov. 30, 2011, BNY Mellon acquired Penson Financial Services Australia Pty Ltd, a clearing firm located in Australia, in a $33 million share purchase transaction. Goodwill related to this acquisition is included in our Investment Services business and totaled $10 million and is non-tax deductible. Customer relationship intangible assets related to this acquisition are included in our Investment Services business, with a life of nine years, and totaled $6 million.

Dispositions in 2011

On Dec. 31, 2011, BNY Mellon sold its Shareowner Services business. The sales price of $550 million resulted in a pre-tax gain of $98 million. We recorded an immaterial after-tax gain primarily due to the write-off of non-tax deductible goodwill associated with the business.

Note 4 – Securities

The following tables present the amortized cost, the gross unrealized gains and losses and the fair value of securities at June 30, 2012 and Dec. 31, 2011.

Securities at June 30, 2012 (in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Available-for-sale:				
U.S. Treasury	**$ 13,915**	**$ 555**	**$ -**	**$ 14,470**
U.S. Government agencies	**1,066**	**31**	**-**	**1,097**
State and political subdivisions	**5,561**	**78**	**37**	**5,602**
Agency RMBS	**32,262**	**774**	**4**	**33,032**
Alt-A RMBS	**267**	**16**	**25**	**258**
Prime RMBS	**816**	**2**	**54**	**764**
Subprime RMBS	**555**	**3**	**136**	**422**
Other RMBS	**2,654**	**9**	**176**	**2,487**
Commercial MBS	**3,269**	**123**	**72**	**3,320**
Asset-backed CLOs	**1,103**	**2**	**25**	**1,080**
Other asset-backed securities	**1,182**	**10**	**3**	**1,189**
Foreign covered bonds	**3,870**	**60**	**2**	**3,928**
Corporate bonds	**1,571**	**59**	**2**	**1,628**
Other debt securities	**10,980**	**301**	**1**	**11,280** *(a)*
Equity securities	**24**	**4**	**-**	**28**
Money market funds	**918**	**-**	**-**	**918**
Alt-A RMBS *(b)*	**1,677**	**213**	**27**	**1,863**
Prime RMBS *(b)*	**956**	**111**	**8**	**1,059**
Subprime RMBS *(b)*	**112**	**6**	**3**	**115**
Total securities available-for-sale	**82,758**	**2,357**	**575**	**84,540**
Held-to-maturity:				
U.S. Treasury	**862**	**60**	**-**	**922**
State and political subdivisions	**79**	**3**	**-**	**82**
Agency RMBS	**6,336**	**79**	**6**	**6,409**
Alt-A RMBS	**126**	**6**	**12**	**120**
Prime RMBS	**108**	**1**	**6**	**103**
Subprime RMBS	**28**	**-**	**3**	**25**
Other RMBS	**1,226**	**39**	**83**	**1,182**
Commercial MBS	**26**	**-**	**3**	**23**
Other securities	**3**	**-**	**-**	**3**
Total securities held-to-maturity	**8,794**	**188**	**113**	**8,869**
Total securities	**$ 91,552**	**$ 2,545**	**$ 688**	**$ 93,409**

(a) Includes $9.0 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.
(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in the first quarter of 2011.

Securities at Dec. 31, 2011 (in millions)	Amortized cost	Gross unrealized Gains	Gross unrealized Losses	Fair value
Available-for-sale:				
U.S. Treasury	$ 16,814	$ 514	$ 2	$ 17,326
U.S. Government agencies	932	26	-	958
State and political subdivisions	2,724	62	47	2,739
Agency RMBS	26,232	575	11	26,796
Alt-A RMBS	306	9	42	273
Prime RMBS	916	1	102	815
Subprime RMBS	606	2	190	418
Other RMBS	1,133	-	230	903
Commercial MBS	3,327	89	77	3,339
Asset-backed CLOs	1,480	1	37	1,444
Other asset-backed securities	527	8	3	532
Foreign covered bonds	2,410	18	3	2,425
Corporate bonds	1,696	47	5	1,738
Other debt securities	14,320	292	33	14,579 *(a)*
Equity securities	26	4	-	30
Money market funds	973	-	-	973
Alt-A RMBS *(b)*	1,790	157	68	1,879
Prime RMBS *(b)*	1,090	106	21	1,175
Subprime RMBS *(b)*	122	6	3	125
Total securities available-for-sale	77,424	1,917	874	78,467
Held-to-maturity:				
U.S. Treasury	813	53	-	866
State and political subdivisions	100	3	-	103
Agency RMBS	658	39	-	697
Alt-A RMBS	153	4	19	138
Prime RMBS	121	-	10	111
Subprime RMBS	28	-	3	25
Other RMBS	1,617	47	93	1,571
Commercial MBS	28	-	2	26
Other securities	3	-	-	3
Total securities held-to-maturity	3,521	146	127	3,540
Total securities	$ 80,945	$ 2,063	$ 1,001	$ 82,007

(a) Includes $13.1 billion, at fair value, of government-sponsored and guaranteed entities, and sovereign debt.
(b) Previously included in the Grantor Trust. The Grantor Trust was dissolved in the first quarter of 2011.

Net securities gains (losses) (in millions)	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Realized gross gains	**$ 122**	$ 62	$ 67	**$ 184**	$ 86
Realized gross losses	**(5)**	-	(11)	**(5)**	(20)
Recognized gross impairments	**(67)**	(22)	(8)	**(89)**	(13)
Total net securities gains (losses)	**$ 50**	$ 40	$ 48	**$ 90**	$ 53

Temporarily impaired securities

At June 30, 2012, substantially all of the unrealized losses on the investment securities portfolio were attributable to credit spreads widening since purchase, and interest rate movements. We do not intend to sell these securities and it is not more likely than not that we will have to sell.

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

Temporarily impaired securities at June 30, 2012 (in millions)	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
State and political subdivisions	**$ 1,659**	**$ 7**	**$ 165**	**$ 30**	**$ 1,824**	**$ 37**
Agency RMBS	**2,657**	**3**	**118**	**1**	**2,775**	**4**
Alt-A RMBS	**92**	**7**	**48**	**18**	**140**	**25**
Prime RMBS	**99**	**7**	**489**	**47**	**588**	**54**
Subprime RMBS	**26**	**11**	**375**	**125**	**401**	**136**
Other RMBS	**663**	**5**	**697**	**171**	**1,360**	**176**
Commercial MBS	**180**	**1**	**433**	**71**	**613**	**72**
Asset-backed CLOs	**783**	**13**	**111**	**12**	**894**	**25**
Other asset-backed securities	**435**	**1**	**8**	**2**	**443**	**3**
Foreign covered bonds	**429**	**2**	**13**	**-**	**442**	**2**
Corporate bonds	**36**	**2**	**-**	**-**	**36**	**2**
Other debt securities	**1,044**	**1**	**17**	**-**	**1,061**	**1**
Alt-A RMBS *(a)*	**282**	**15**	**95**	**12**	**377**	**27**
Prime RMBS *(a)*	**159**	**7**	**23**	**1**	**182**	**8**
Subprime RMBS *(a)*	**31**	**3**	**-**	**-**	**31**	**3**
Total securities available-for-sale	**$ 8,575**	**$ 85**	**$ 2,592**	**$ 490**	**$ 11,167**	**$ 575**
Held-to-maturity:						
Agency RMBS	**$ 1,652**	**$ 6**	**$ -**	**$ -**	**$ 1,652**	**$ 6**
Alt-A RMBS	**25**	**2**	**39**	**10**	**64**	**12**
Prime RMBS	**-**	**-**	**55**	**6**	**55**	**6**
Subprime RMBS	**-**	**-**	**25**	**3**	**25**	**3**
Other RMBS	**60**	**2**	**468**	**81**	**528**	**83**
Commercial MBS	**-**	**-**	**23**	**3**	**23**	**3**
Total securities held-to-maturity	**$ 1,737**	**$ 10**	**$ 610**	**$ 103**	**$ 2,347**	**$ 113**
Total temporarily impaired securities	**$ 10,312**	**$ 95**	**$ 3,202**	**$ 593**	**$ 13,514**	**$ 688**

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

Temporarily impaired securities at Dec. 31, 2011 (in millions)	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Available-for-sale:						
U.S. Treasury	$ 118	$ 2	$ -	$ -	$ 118	$ 2
State and political subdivisions	483	2	157	45	640	47
Agency RMBS	3,844	10	140	1	3,984	11
Alt-A RMBS	132	16	69	26	201	42
Prime RMBS	324	25	447	77	771	102
Subprime RMBS	-	-	400	190	400	190
Other RMBS	5	4	895	226	900	230
Commercial MBS	340	2	495	75	835	77
Asset-backed CLOs	1,143	26	211	11	1,354	37
Other asset-backed securities	60	1	18	2	78	3
Foreign covered bonds	368	1	406	2	774	3
Corporate bonds	254	5	-	-	254	5
Other debt securities	2,613	7	54	26	2,667	33
Alt-A RMBS *(a)*	595	53	29	15	624	68
Prime RMBS *(a)*	437	21	-	-	437	21
Subprime RMBS *(a)*	50	3	-	-	50	3
Total securities available-for-sale	$ 10,766	$ 178	$ 3,321	$ 696	$ 14,087	$ 874
Held-to-maturity:						
Alt-A RMBS	$ 69	$ 3	$ 42	$ 16	$ 111	$ 19
Prime RMBS	-	-	56	10	56	10
Subprime RMBS	-	-	25	3	25	3
Other RMBS	107	2	573	91	680	93
Commercial MBS	-	-	26	2	26	2
Total securities held-to-maturity	$ 176	$ 5	$ 722	$ 122	$ 898	$ 127
Total temporarily impaired securities	$ 10,942	$ 183	$ 4,043	$ 818	$ 14,985	$ 1,001

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

The following table shows the maturity distribution by carrying amount and yield (on a tax equivalent basis) of our investment securities portfolio at June 30, 2012.

Investment securities portfolio	U.S. Treasury		U.S. Government agency		State and political subdivisions		Other bonds, notes and debentures		Mortgage/ asset-backed and equity securities		
(dollars in millions)	Amount	Yield *(a)*	Amount	Yield*(a)*	Amount	Yield *(a)*	Amount	Yield *(a)*	Amount	Yield *(a)*	**Total**
Securities available-for-sale:											
One year or less	$ 174	0.65%	$ -	-%	$ 110	1.53%	$ 3,268	1.09%	$ -	-%	**$ 3,552**
Over 1 through 5 years	9,180	0.95	1,011	1.62	2,397	1.58	10,984	1.45	-	-	**23,572**
Over 5 through 10 years	1,868	2.91	86	2.06	2,548	3.10	2,406	2.83	-	-	**6,908**
Over 10 years	3,248	3.13	-	-	547	4.15	178	2.48	-	-	**3,973**
Mortgage-backed securities	-	-	-	-	-	-	-	-	43,320	2.92	**43,320**
Asset-backed securities	-	-	-	-	-	-	-	-	2,269	1.72	**2,269**
Equity securities *(b)*	-	-	-	-	-	-	-	-	946	-	**946**
Total	$ 14,470	1.69%	$ 1,097	1.65%	$ 5,602	2.52%	$ 16,836	1.59%	$ 46,535	2.80%	**$ 84,540**
Securities held-to-maturity:											
One year or less	$ -	-%	$ -	-%	$ 1	6.87%	$ 3	0.07%	$ -	-%	**$ 4**
Over 1 through 5 years	559	1.82	-	-	-	-	-	-	-	-	**559**
Over 5 through 10 years	363	2.66	-	-	31	6.59	-	-	-	-	**394**
Over 10 years	-	-	-	-	50	6.55	-	-	-	-	**50**
Mortgage-backed securities	-	-	-	-	-	-	-	-	7,862	2.99	**7,862**
Total	$ 922	2.15%	$ -	-%	$ 82	6.57%	$ 3	0.07%	$ 7,862	2.99%	**$ 8,869**

(a) Yields are based upon the amortized cost of securities.
(b) Includes money market funds.

Other-than-temporary impairment

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

- Default rate – the number of mortgage loans expected to go into default over the life of the transaction, which is driven by the roll rate of loans in each performance bucket that will ultimately migrate to default; and
- Severity – the loss expected to be realized when a loan defaults.

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

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

The table below shows the projected weighted-average default rates and loss severities for the 2007, 2006 and late 2005 non-agency RMBS at June 30, 2012 and Dec. 31, 2011.

Projected weighted-average default rates and severities	**June 30, 2012**		Dec. 31, 2011	
	Default Rate	**Severity**	Default Rate	Severity
Alt-A	**43%**	**57%**	44%	57%
Subprime	**62%**	**72%**	63%	73%
Prime	**24%**	**43%**	25%	43%

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

Net securities gains *(in millions)*	2Q12	1Q12	2Q11	Year-to-date 2012	Year-to-date 2011
U.S. Treasury	**$ 44**	$ 38	$ 41	**$ 82**	$ 41
Sovereign debt	**61**	7	-	**68**	-
FDIC-insured debt	**-**	10	-	**10**	-
Corporate bonds	**7**	2	-	**9**	-
Prime RMBS	**(1)**	(1)	-	**(2)**	9
Alt-A RMBS	**(3)**	(10)	(1)	**(13)**	4
Trust preferred	**(18)**	-	-	**(18)**	-
European floating rate notes	**(22)**	(1)	(12)	**(23)**	(15)
Subprime RMBS	**(23)**	(3)	(6)	**(26)**	(12)
Agency RMBS	**-**	-	8	**-**	8
Other	**5**	(2)	18	**3**	18
Net securities gains (losses)	**$ 50**	$ 40	$ 48	**$ 90**	$ 53

The following table reflects investment securities credit losses recorded in earnings. The beginning balance represents the credit loss component for which OTTI occurred on debt securities in prior periods. The additions represent the first time a debt security was credit impaired or when subsequent credit impairments have occurred. The deductions represent credit losses on securities that have been sold, are required to be sold or it is our intention to sell.

Debt securities credit loss roll forward *(in millions)*	2Q12	2Q11
Beginning balance as of March 31	**$ 266**	$ 183
Add: Initial OTTI credit losses	**38**	7
Subsequent OTTI credit losses	**29**	1
Less: Realized losses for securities sold / consolidated	**-**	4
Ending balance as of June 30	**$ 333**	$187

Debt securities credit loss roll forward *(in millions)*	Year-to-date 2012	Year-to-date 2011
Beginning balance as of Jan. 1	**$ 253**	$ 182
Add: Initial OTTI credit losses	**49**	9
Subsequent OTTI credit losses	**39**	4
Less: Realized losses for securities sold / consolidated	**8**	8
Ending balance as of June 30	**$ 333**	$ 187

Note 5 – Loans and asset quality

Loans

The table below provides the details of our loan distribution and industry concentrations of credit risk at June 30, 2012 and Dec. 31, 2011.

Loans *(in millions)*	June 30, 2012	Dec. 31, 2011
Domestic:		
Financial institutions	**$ 4,835**	$ 4,606
Commercial	**814**	752
Wealth management loans and mortgages	**7,916**	7,342
Commercial real estate	**1,595**	1,449
Lease financings *(a)*	**1,505**	1,558
Other residential mortgages	**1,773**	1,923
Overdrafts	**2,750**	2,958
Other	**599**	623
Margin loans	**13,462**	12,760
Total domestic	**35,249**	33,971
Foreign:		
Financial institutions	**5,681**	6,538
Commercial	**573**	528
Lease financings *(a)*	**1,023**	1,051
Other (primarily overdrafts)	**2,905**	1,891
Total foreign	**10,182**	10,008
Total loans	**$ 45,431**	$ 43,979

(a) Net of unearned income on domestic and foreign lease financings of $1,225 million at June 30, 2012 and $1,343 million at Dec. 31, 2011.

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

Allowance for credit losses

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

Allowance for credit losses activity for the quarter ended June 30, 2012 *(in millions)*	Commercial	Commercial real estate	Financial institutions	Lease financing	Wealth management loans and mortgages	Other residential mortgages	All Other *(a)*	Foreign	Total
Beginning balance	$ 97	$ 33	$ 53	$ 62	$ 34	$ 165	$ -	$ 50	$ 494
Charge-offs	-	-	(4)	-	-	(7)	-	-	(11)
Recoveries	1	-	-	-	-	2	-	-	3
Net (charge-offs) recoveries	1	-	(4)	-	-	(5)	-	-	(8)
Provision	5	-	(10)	(6)	(8)	(7)	-	7	(19)
Ending balance	**$ 103**	**$ 33**	**$ 39**	**$ 56**	**$ 26**	**$ 153**	**$ -**	**$ 57**	**$ 467**
Allowance for:									
Loans losses	$ 42	$ 23	$ 18	$ 56	$ 21	$ 153	$ -	$ 49	$ 362
Unfunded commitments	61	10	21	-	5	-	-	8	105
Individually evaluated for impairment:									
Loan balance	$ 62	$ 29	$ 3	$ -	$ 31	$ -	$ -	$ 9	$ 134
Allowance for loan losses	16	6	-	-	7	-	-	5	34
Collectively evaluated for impairment:									
Loan balance	$ 752	$ 1,566	$ 4,832	$ 1,505	$ 7,885	$ 1,773	$ 16,811 *(a)*	$ 10,173	$ 45,297
Allowance for loan losses	26	17	18	56	14	153	-	44	328

(a) Includes $2,750 million of domestic overdrafts, $13,462 million of margin loans and $599 million of other loans at June 30, 2012.

Allowance for credit losses activity for the quarter ended March 31, 2012 *(in millions)*	Commercial	Commercial real estate	Financial institutions	Lease financing	Wealth management loans and mortgages	Other residential mortgages	All Other *(a)*	Foreign	Total
Beginning balance	$ 91	$ 34	$ 63	$ 66	$ 29	$ 156	$ -	$ 58	$ 497
Charge-offs	-	-	-	-	-	(10)	-	-	(10)
Recoveries	-	-	-	-	-	2	-	-	2
Net (charge-offs) recoveries	-	-	-	-	-	(8)	-	-	(8)
Provision	6	(1)	(10)	(4)	5	17	-	(8)	5
Ending balance	**$ 97**	**$ 33**	**$ 53**	**$ 62**	**$ 34**	**$ 165**	**$ -**	**$ 50**	**$ 494**
Allowance for:									
Loans losses	$ 36	$ 22	$ 30	$ 62	$ 29	$ 165	$ -	$ 42	$ 386
Unfunded commitments	61	11	23	-	5	-	-	8	108
Individually evaluated for impairment:									
Loan balance	$ 66	$ 38	$ 14	$ -	$ 31	$ -	$ -	$ 10	$ 159
Allowance for loan losses	17	6	5	-	7	-	-	3	38
Collectively evaluated for impairment:									
Loan balance	$ 697	$ 1,403	$ 4,881	$ 1,518	$ 7,281	$ 1,854	$ 15,964 *(a)*	$ 9,271	$ 42,869
Allowance for loan losses	19	16	25	62	22	165	-	39	348

(a) Includes $1,971 million of domestic overdrafts, $13,144 million of margin loans and $849 million of other loans at March 31, 2012.

Allowance for credit losses activity for the quarter ended June 30, 2011 (in millions)	Commercial	Commercial real estate	Financial institutions	Lease financing	Wealth management loans and mortgages	Other residential mortgages	All Other *(a)*	Foreign	Total
Beginning balance	$ 100	$ 34	$ 17	$ 93	$ 29	$ 213	$ 2	$ 66	$ 554
Charge-offs	(4)	(1)	(1)	-	-	(9)	-	(6)	(21)
Recoveries	1	-	1	-	-	-	-	-	2
Net (charge-offs) recoveries	(3)	(1)	-	-	-	(9)	-	(6)	(19)
Provision	(1)	(6)	7	(2)	2	(4)	(2)	6	-
Ending balance	**$ 96**	**$ 27**	**$ 24**	**$ 91**	**$ 31**	**$ 200**	**$ -**	**$ 66**	**$ 535**
Allowance for:									
Loans losses	$ 42	$ 21	$ 4	$ 91	$ 25	$ 200	$ -	$ 58	$ 441
Unfunded commitments	54	6	20	-	6	-	-	8	94
Individually evaluated for impairment:									
Loan balance	$ 31	$ 28	$ 3	$ -	$ 28	$ -	$ -	$ 13	$ 103
Allowance for loan losses	13	3	-	-	5	-	-	6	27
Collectively evaluated for impairment:									
Loan balance	$ 823	$ 1,443	$ 5,506	$ 1,562	$ 6,790	$ 2,080	$ 14,746 *(a)*	$ 9,094	$ 42,044
Allowance for loan losses	29	18	4	91	20	200	-	52	414

(a) Includes $4,629 million of domestic overdrafts, $9,520 million of margin loans and $597 million of other loans at June 30, 2011.

Allowance for credit losses activity for the six months ended June 30, 2012 (in millions)	Commercial	Commercial real estate	Financial institutions	Lease financing	Wealth management loans and mortgages	Other residential mortgages	All Other	Foreign	Total
Beginning balance	$ 91	$ 34	$ 63	$ 66	$ 29	$ 156	$ -	$ 58	$ 497
Charge-offs	-	-	(4)	-	-	(16)	-	-	(20)
Recoveries	1	-	-	-	-	3	-	-	4
Net (charge-offs) recoveries	1	-	(4)	-	-	(13)	-	-	(16)
Provision	11	(1)	(20)	(10)	(3)	10	-	(1)	(14)
Ending balance	$ 103	$ 33	$ 39	$ 56	$ 26	$ 153	$ -	$ 57	$ 467

Allowance for credit losses activity for the six months ended June 30, 2011 (in millions)	Commercial	Commercial real estate	Financial institutions	Lease financing	Wealth management loans and mortgages	Other residential mortgages	All Other	Foreign	Total
Beginning balance	$ 93	$ 40	$ 11	$ 90	$ 41	$ 235	$ 1	$ 60	$ 571
Charge-offs	(4)	(4)	(1)	-	-	(25)	-	(6)	(40)
Recoveries	2	-	2	-	-	-	-	-	4
Net (charge-offs) recoveries	(2)	(4)	1	-	-	(25)	-	(6)	(36)
Provision	5	(9)	12	1	(10)	(10)	(1)	12	-
Ending balance	$ 96	$ 27	$ 24	$ 91	$ 31	$ 200	$ -	$ 66	$ 535

Nonperforming assets

The table below sets forth information about our nonperforming assets.

Nonperforming assets *(in millions)*	**June 30, 2012**	March 31, 2012	Dec. 31, 2011
Loans:			
Other residential mortgages	**$ 177**	$ 188	$ 203
Wealth management	**35**	35	32
Commercial	**31**	32	21
Commercial real estate	**30**	39	40
Foreign	**9**	10	10
Financial institutions	**3**	14	23
Total nonperforming loans	**$ 285**	$ 318	$ 329
Other assets owned	**9**	13	12
Total nonperforming assets *(a)*	**$ 294**	$ 331	$ 341

(a) Loans of consolidated investment management funds are not part of BNY Mellon's loan portfolio. Included in these loans are nonperforming loans of $155 million at June 30, 2012, $180 million at March 31, 2012 and $101 million at Dec. 31, 2011. These loans are recorded at fair value and therefore do not impact the provision for credit losses and allowance for loan losses, and accordingly are excluded from the nonperforming assets table above.

At June 30, 2012, undrawn commitments to borrowers whose loans were classified as nonaccrual or reduced rate were not material.

Lost interest

Lost interest *(in millions)*	**2Q12**	1Q12	2Q11	**YTD12**	YTD11
Amount by which interest income recognized on nonperforming loans exceeded reversals	**$ 1**	$ -	$ 1	**$ 2**	$ 1
Amount by which interest income would have increased if nonperforming loans at period-end had been performing for the entire year	**$ 5**	$ 5	$ 5	**$ 10**	$ 10

Impaired loans

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

Impaired loans	Quarter ended					
	June 30, 2012		March 31, 2012		June 30, 2011	
(in millions)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Impaired loans with an allowance:						
Commercial	**$ 64**	**$ 1**	**$** 46	$ 1	$ 28	$ -
Commercial real estate	**31**	**-**	35	-	18	-
Financial institutions	**6**	**-**	16	-	4	-
Wealth management loans and mortgages	**28**	**-**	28	-	39	1
Foreign	**10**	**-**	10	-	10	-
Total impaired loans with an allowance	**139**	**1**	135	1	99	1
Impaired loans without an allowance*:*						
Commercial	**-**	**-**	-	-	2	-
Commercial real estate	**3**	**-**	3	-	14	-
Financial institutions	**2**	**-**	3	-	-	-
Wealth management loans and mortgages	**3**	**-**	3	-	2	-
Total impaired loans without an allowance *(a)*	**8**	**-**	9	-	18	-
Total impaired loans	**$ 147**	**$ 1**	$ 144	$ 1	$117	$ 1

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

Impaired loans	Year-to-date			
	June 30, 2012		June 30, 2011	
(in millions)	Average recorded investment	Interest income recognized	Average recorded Investment	Interest income recognized
Impaired loans with an allowance:				
Commercial	**$ 51**	**$ 2**	$ 28	$ -
Commercial real estate	**32**	**-**	21	-
Financial institutions	**11**	**-**	4	-
Wealth management loans and mortgages	**28**	**-**	43	1
Foreign	**10**	**-**	9	-
Total impaired loans with an allowance	**132**	**2**	105	1
Impaired loans without an allowance:				
Commercial	**-**	**-**	2	-
Commercial real estate	**3**	**-**	16	-
Financial institutions	**2**	**-**	-	-
Wealth management loans and mortgages	**3**	**-**	1	-
Total impaired loans without an allowance *(a)*	**8**	**-**	19	-
Total impaired loans	**$ 140**	**$ 2**	$ 124	$ 1

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

Impaired loans	**June 30, 2012**			Dec. 31, 2011		
(in millions)	Recorded investment	Unpaid principal balance	Related allowance *(a)*	Recorded investment	Unpaid principal balance	Related allowance *(a)*
Impaired loans with an allowance:						
Commercial *(a)*	**$ 62**	**$ 66**	**$ 16**	$ 26	$ 31	$ 9
Commercial real estate	**27**	**28**	**6**	35	41	7
Financial institutions	**1**	**1**	**-**	21	21	7
Wealth management loans and mortgages	**28**	**28**	**7**	27	27	5
Foreign	**9**	**17**	**5**	10	18	4
Total impaired loans with an allowance	**127**	**140**	**34**	119	138	32
Impaired loans without an allowance:						
Commercial	**-**	**-**	**N/A**	-	-	N/A
Commercial real estate	**2**	**2**	**N/A**	3	3	N/A
Financial institutions	**2**	**9**	**N/A**	3	9	N/A
Wealth management loans and mortgages	**3**	**3**	**N/A**	3	3	N/A
Total impaired loans without an allowance *(b)*	**7**	**14**	**N/A**	9	15	N/A
Total impaired loans *(c)*	**$ 134**	**$ 154**	**$ 34**	$ 128	$ 153	$ 32

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

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

(c) Excludes an aggregate of $2 million of impaired loans in amounts individually less than $1 million at both June 30, 2012 and Dec. 31, 2011. The allowance for loan loss associated with these loans totaled less than $1 million at both June 30, 2012 and Dec. 31, 2011.

N/A – Not applicable.

Past due loans

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

Past due loans and still accruing	**June 30, 2012**				Dec. 31, 2011			
	Days past due			Total	Days past due			Total
(in millions)	30-59	60-89	>90	past due	30-59	60-89	>90	past due
Domestic:								
Wealth management loans and mortgages	**$ 49**	**$ 21**	**$ -**	**$ 70**	$ 89	$ 3	$ -	$ 92
Other residential mortgages	**31**	**6**	**11**	**48**	36	10	13	59
Financial institutions	**19**	**-**	**-**	**19**	36	-	-	36
Commercial	**-**	**-**	**-**	**-**	60	7	-	67
Commercial real estate	**7**	**1**	**-**	**8**	47	9	-	56
Total domestic	**106**	**28**	**11**	**145**	268	29	13	310
Foreign	**-**	**-**	**-**	**-**	-	-	-	-
Total past due loans	**$ 106**	**$ 28**	**$ 11**	**$ 145**	$ 268	$ 29	$ 13	$ 310

Troubled debt restructurings ("TDRs")

A modified loan is considered a TDR if the debtor is experiencing financial difficulties and the creditor grants a concession to the debtor that would not otherwise be considered. A TDR may include a transfer of real estate or other assets from the debtor to the creditor, or a modification of the term of the loan. Not all modified loans are considered TDRs.

The following table presents TDRs that occurred during the second quarter of 2012.

TDRs during the second quarter of 2012		Outstanding recorded investment	
(dollars in millions)	Number of contracts	Pre-modification	Post-modification
Other residential mortgages	52	$ 15	$ 16
Commercial	1	4	4
Total TDRs	**53**	**$ 19**	**$ 20**

Other residential mortgages

The modifications of the other residential mortgage loans consisted of reducing the stated interest rate and in certain cases, extending the maturity date. The value of modified loans is based on the fair value of the collateral. Probable loss factors are applied to the value of the modified loans to determine the allowance for credit losses.

Commercial

The modification of the commercial loan and unfunded lending-related commitment consisted of changing the maturity date of the loan. The difference between the book value and the market price of the loan is included in the allowance for credit losses.

TDRs that subsequently defaulted

There were six residential mortgage loans and one wealth management loan that had been restructured in a TDR during the previous 12 months and have subsequently defaulted during the second quarter of 2012. The total recorded investment of these loans was $2 million.

Credit quality indicators

Our credit strategy is to focus on investment grade names to support cross-selling opportunities, avoid single name/industry concentrations and exit high risk portfolios. Each customer is assigned an internal rating grade which is mapped to an external rating agency grade equivalent based upon a number of dimensions which are continually evaluated and may change over time.

The following tables set forth information about credit quality indicators.

Commercial loan portfolio

Commercial loan portfolio - Credit risk profile by creditworthiness category

	Commercial		Commercial real estate		Financial institutions	
(in millions)	**June 30, 2012**	Dec. 31, 2011	**June 30, 2012**	Dec. 31, 2011	**June 30, 2012**	Dec. 31, 2011
Investment grade	**$ 1,018**	$ 906	**$ 1,113**	$ 1,062	**$ 8,899**	$ 9,643
Noninvestment grade	**369**	374	**482**	387	**1,617**	1,501
Total	**$ 1,387**	$ 1,280	**$ 1,595**	$ 1,449	**$ 10,516**	$ 11,144

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

Wealth management loans and mortgages

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

(in millions)	**June 30, 2012**	Dec. 31, 2011
Wealth management loans:		
Investment grade	**$ 3,905**	$ 3,450
Noninvestment grade	**109**	111
Wealth management mortgages	**3,902**	3,781
Total	**$ 7,916**	$ 7,342

Wealth management non-mortgage loans are not typically rated by external rating agencies. A majority of the wealth management loans are secured by the customers' investment management accounts or custody accounts. Eligible assets pledged for these loans are typically investment grade, fixed income securities, equities and/or mutual funds. Internal ratings for this portion of the wealth management portfolio, therefore, would equate to investment-grade external ratings. Wealth management loans are provided to select customers based on the pledge of other types of assets, including business assets, fixed assets, or a modest amount of commercial real estate. For the loans collateralized by other assets, the credit quality of the obligor is carefully analyzed, but we do not consider this portfolio of loans to be investment grade.

Credit quality indicators for wealth management mortgages are not correlated to external ratings. Wealth management mortgages are typically loans to high-net-worth individuals, which are secured primarily by residential property. These loans are primarily interest-only adjustable rate mortgages with an average loan to value ratio of 63% at origination. In the wealth management portfolio, 1% of the mortgages were past due at June 30, 2012.

At June 30, 2012, the private wealth mortgage portfolio was comprised of the following geographic concentrations: New York – 23%; California – 18%; Massachusetts – 17%; Florida – 8%; and other – 34%.

Other residential mortgages

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans and totaled $1,773 million at June 30, 2012 and $1,923 million at Dec. 31, 2011. These loans are not typically correlated to external ratings. Included in this portfolio at June 30, 2012 are $542 million of mortgage loans purchased in 2005, 2006 and the first quarter of 2007 that are predominantly prime mortgage loans, with a small portion of Alt-A loans. As of June 30, 2012, the purchased loans in this portfolio had a weighted-average original loan-to-value ratio of 75% and 29% of these loans were at least 60 days delinquent. The properties securing the prime and Alt-A mortgage loans were located (in order of concentration) in California, Florida, Virginia, Maryland and the tri-state area (New York, New Jersey and Connecticut).

Overdrafts

Overdrafts primarily relate to custody and securities clearance clients and totaled $5,655 million at June 30, 2012 and $4,849 million at Dec. 31, 2011. Overdrafts occur on a daily basis in the custody and securities clearance business and are generally repaid within two business days.

Margin loans

We had $13,462 million of secured margin loans on our balance sheet at June 30, 2012 compared with $12,760 million at Dec. 31, 2011. Margin loans are collateralized with marketable securities and borrowers are required to maintain a daily collateral margin in excess of 100% of the value of the loan. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to them.

Other loans

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

Reverse repurchase agreements

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

Note 6 – Goodwill and intangible assets

Impairment testing

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

BNY Mellon's three business segments include seven reporting units for which goodwill impairment testing is performed on an annual basis. In the second quarter of 2012, BNY Mellon conducted an annual goodwill impairment test on all seven reporting units. The estimated fair value of the seven reporting units exceeded the carrying value and no goodwill impairment was recognized.

Goodwill

The tables below provide a breakdown of goodwill by business.

Goodwill by business *(in millions)*	Investment Management	Investment Services	Other	Consolidated
Balance at Dec. 31, 2011	$ 9,373	$ 8,491	$ 40	$ 17,904
Foreign exchange translation	13	(7)	-	6
Other *(a)*	-	(11)	10	(1)
Balance at June 30, 2012	**$ 9,386**	**$ 8,473**	**$ 50**	**$ 17,909**

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

Goodwill by business *(in millions)*	Investment Management	Investment Services *(a)*	Other *(a)*	Consolidated
Balance at Dec. 31, 2010	$ 9,359	$ 8,515	$ 168	$ 18,042
Foreign exchange translation	64	82	-	146
Other *(b)*	7	(4)	-	3
Balance at June 30, 2011	$ 9,430	$ 8,593	$ 168	$ 18,191

(a) Includes the reclassification of goodwill associated with the Shareowner Services business from Investment Services to the Other segment.
(b) Other changes in goodwill include purchase price adjustments and certain other reclassifications.

Intangible assets

The tables below provide a breakdown of intangible assets by business.

Intangible assets – net carrying amount by business *(in millions)*	Investment Management	Investment Services	Other	Consolidated
Balance at Dec. 31, 2011	$ 2,382	$ 1,922	$ 848	$ 5,152
Amortization	(96)	(97)	-	(193)
Foreign exchange translation	4	(1)	-	3
Other *(a)*	-	(1)	1	-
Balance at June 30, 2012	**$ 2,290**	**$ 1,823**	**$ 849**	**$ 4,962**

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

Intangible assets – net carrying amount by business *(in millions)*	Investment Management	Investment Services *(a)*	Other *(a)*	Consolidated
Balance at Dec. 31, 2010	$ 2,592	$ 2,113	$ 991	$ 5,696
Acquisitions	-	12	-	12
Amortization	(108)	(100)	(8)	(216)
Foreign exchange translation	16	10	-	26
Impairment	-	(6)	-	(6)
Other *(b)*	-	2	-	2
Balance at June 30, 2011	$ 2,500	$ 2,031	$ 983	$ 5,514

(a) Includes the reclassification of intangible assets associated with the Shareowner Services business from Investment Services to the Other segment.
(b) Other changes in intangible assets include purchase price adjustments and certain other reclassifications.

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

Intangible assets	**June 30, 2012**				Dec. 31, 2011
(in millions)	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**	**Remaining weighted-average amortization period**	Net carrying amount
Subject to amortization:					
Customer relationships - Investment Management	**$ 2,093**	**$ (1,267)**	**$ 826**	**12 yrs.**	$ 920
Customer contracts - Investment Services	**2,348**	**(925)**	**1,423**	**13**	1,517
Other	**131**	**(101)**	**30**	**5**	36
Total subject to amortization	**4,572**	**(2,293)**	**2,279**	**13 yrs.**	2,473
Not subject to amortization: *(a)*					
Trade name	**1,367**	**N/A**	**1,367**	**N/A**	1,366
Customer relationships	**1,316**	**N/A**	**1,316**	**N/A**	1,313
Total not subject to amortization	**2,683**	**N/A**	**2,683**	**N/A**	2,679
Total intangible assets	**$ 7,255**	**$ (2,293)**	**$ 4,962**	**N/A**	$ 5,152

(a) Intangible assets not subject to amortization have an indefinite life.
N/A - Not applicable.

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

For the year ended Dec. 31,	Estimated amortization expense *(in millions)*
2012	$ 385
2013	334
2014	298
2015	266
2016	238

Note 7 – Other assets

Other assets *(in millions)*	**June 30, 2012**	Dec. 31, 2011
Accounts receivable	**$ 4,286**	$ 4,208
Corporate/bank owned life insurance	**4,260**	4,216
Equity in joint ventures and other investments *(a)*	**2,748**	2,677
Income taxes receivable	**2,681**	2,573
Fails to deliver	**1,277**	961
Fair value of hedging derivatives	**1,232**	1,600
Software	**1,046**	986
Prepaid expenses	**605**	784
Due from customers on acceptances	**355**	321
Prepaid pension assets	**176**	144
Other	**1,089**	1,369
Total other assets	**$ 19,755**	$ 19,839

(a) Includes Federal Reserve Bank stock of $434 million and $429 million, respectively, at cost.

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

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

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

Seed capital and private equity investments valued using NAV

	June 30, 2012				Dec. 31, 2011			
(dollar amounts in millions)	**Fair value**	**Unfunded commitments**	**Redemption frequency**	**Redemption notice period**	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Hedge funds *(a)*	**$ 16**	**$ -**	**Monthly-quarterly**	**3-45 days**	$ 9	$ -	Monthly-quarterly	3-45 days
Private equity funds *(b)*	**107**	**22**	**N/A**	**N/A**	122	24	N/A	N/A
Other funds *(c)*	**115**	**18**	**Monthly-yearly**	***(c)***	63	-	Monthly-yearly	*(c)*
Total	**$ 238**	**$ 40**			$ 194	$ 24		

(a) Hedge funds include multi-strategy funds that utilize a variety of investment strategies and equity long-short hedge funds that include various funds that invest over both long-term investment and short-term investment horizons.
(b) Private equity funds primarily include numerous venture capital funds that invest in various sectors of the economy. Private equity funds do not have redemption rights. Distributions from such funds will be received as the underlying investments in the funds are liquidated.
(c) Other funds include various market neutral, leveraged loans, real estate and structured credit funds. Redemption notice periods vary by fund.
N/A – Not applicable.

Note 8 – Net interest revenue

Net interest revenue	Quarter ended			Year-to-date	
(in millions)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Interest revenue					
Non-margin loans	**$ 169**	$ 169	$ 171	**$ 338**	$ 342
Margin loans	**42**	42	32	**84**	59
Securities:					
Taxable	**484**	503	483	**987**	956
Exempt from federal income taxes	**20**	15	8	**35**	13
Total securities	**504**	518	491	**1,022**	969
Deposits in banks	**93**	114	144	**207**	272
Deposits with the Federal Reserve and other central banks	**39**	43	27	**82**	43
Federal funds sold and securities purchased under resale agreements	**9**	9	5	**18**	11
Trading assets	**19**	17	17	**36**	39
Total interest revenue	**875**	912	887	**1,787**	1,735
Interest expense					
Deposits	**43**	43	68	**86**	116
Federal funds purchased and securities sold under repurchase agreements	**-**	-	1	**-**	2
Trading liabilities	**6**	4	9	**10**	22
Other borrowed funds	**6**	5	5	**11**	12
Customer payables	**2**	2	1	**4**	3
Long-term debt	**84**	93	72	**177**	151
Total interest expense	**141**	147	156	**288**	306
Net interest revenue	**$ 734**	$ 765	$ 731	**$ 1,499**	$ 1,429

Note 9 – Employee benefit plans

The components of net periodic benefit cost are as follows:

Net periodic benefit cost (credit)	Quarter ended								
	June 30, 2012			March 31, 2012			June 30, 2011		
(in millions)	**Domestic pension benefits**	**Foreign pension benefits**	**Health care benefits**	Domestic pension benefits	Foreign pension benefits	Health care benefits	Domestic pension benefits	Foreign pension benefits	Health care benefits
Service cost	**$ 15**	**$ 8**	**$ 1**	$ 15	$ 8	$ 1	$ 16	$ 8	$ 1
Interest cost	**42**	**9**	**3**	42	9	3	44	9	3
Expected return on assets	**(68)**	**(12)**	**(2)**	(68)	(12)	(2)	(71)	(11)	(2)
Other	**38**	**3**	**3**	38	3	3	23	4	2
Net periodic benefit cost	**$ 27**	**$ 8**	**$ 5**	$ 27	$ 8	$ 5	$ 12	$ 10	$ 4

Net periodic benefit cost (credit)	Year-to-date					
	June 30, 2012			June 30, 2011		
(in millions)	**Domestic pension benefits**	**Foreign pension benefits**	**Health care benefits**	Domestic pension benefits	Foreign pension benefits	Health care benefits
Service cost	**$ 30**	**$ 16**	**$ 2**	$ 32	$ 16	$ 2
Interest cost	**84**	**18**	**6**	88	17	6
Expected return on assets	**(136)**	**(24)**	**(4)**	(141)	(22)	(4)
Other	**76**	**6**	**6**	46	8	4
Net periodic benefit cost	**$ 54**	**$ 16**	**$ 10**	$ 25	$ 19	$ 8

Note 10 – Restructuring charges

Operational excellence initiatives

In the fourth quarter of 2011, we announced our operational excellence initiatives which include an expense reduction initiative that was expected to impact approximately 1,500 positions or approximately 3% of our global workforce, as well as additional initiatives to transform operations, technology and corporate services that will increase productivity and reduce the growth rate of expenses. Severance payments related to these positions are primarily paid over the salary continuance period in accordance with the separation plan. In 2011, we recorded a pre-tax restructuring charge of $107 million related to the operational excellence initiatives. The aggregate restructuring charge is included in the merger and integration, litigation and restructuring charges expense category on the income statement.

The following table presents the activity in the restructuring reserve related to the operational excellence initiatives through June 30, 2012.

Operational excellence initiatives 2011 – restructuring charge reserve activity

(in millions)	Severance	Other	Total
Original restructuring charge	$ 78	$ 29	$ 107
Additional charges (recovery)	(2)	-	(2)
Utilization	(14)	(29)	(43)
Balance at March 31, 2012	62	-	62
Utilization	(11)	-	(11)
Balance at June 30, 2012	**$ 51**	**$ -**	**$ 51**

This restructuring charge was recorded in the Other segment as it is a corporate initiative and not directly related to the operating performance of the businesses. The table below presents the restructuring charge if it had been allocated by business.

Operational excellence initiatives 2011 – restructuring charge (recovery) by business

(in millions)	**2Q12**	1Q12	Total charges since inception
Investment Management	**$ 4**	$ -	$ 21
Investment Services	**-**	(2)	39
Other segment (including Business Partners)	**(4)**	-	45
Total restructuring charge (recovery)	**$ -**	$ (2)	$ 105

Global location strategy

BNY Mellon continues to execute its global location strategy. This strategy includes migrating positions to our global growth centers and was expected to result in moving and/or eliminating approximately 2,400 positions. Severance payments related to these positions are primarily paid over the salary continuance period in accordance with the separation plan. In 2009, we recorded a pre-tax restructuring charge of $139 million related to this strategy. In the second quarter of 2012, we recorded a recovery of $4 million associated with the global location strategy.

The following table presents the activity in the restructuring reserve related to the global location strategy through June 30, 2012.

Global location strategy 2009 – restructuring charge reserve activity *(in millions)*	Severance	Asset write-offs/ other	Total
Original restructuring charge	$ 102	$ 37	$ 139
Additional charges	7	6	13
Utilization	(96)	(32)	(128)
Balance at March 31, 2012	13	11	24
Additional charges (recovery)	(4)	-	(4)
Utilization	(4)	-	(4)
Balance at June 30, 2012	**$ 5**	**$ 11**	**$ 16**

This restructuring charge was recorded in the Other segment as it is a corporate initiative and not directly related to the operating performance of the businesses. The table below presents the restructuring charge if it had been allocated by business.

Global location strategy 2009 – restructuring charge (recovery) by business *(in millions)*	**2Q12**	1Q12	2Q11	Total charges since inception
Investment Management	**$ -**	$ (1)	$ 2	**$ 54**
Investment Services	**(4)**	(7)	(5)	**65**
Other segment (including Business Partners)	-	1	(1)	**29**
Total restructuring charge (recovery)	**$ (4)**	$ (7)	$ (4)	**$ 148**

Note 11 – Income taxes

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

Effective tax rate	**Six months ended June 30, 2012**	Six months ended June 30, 2011
Federal rate	**35.0%**	35.0%
State and local income taxes, net of federal income tax benefit	**2.4**	3.0
Credit for low-income housing investments	**(2.3)**	(1.6)
Tax-exempt income	**(3.3)**	(3.7)
Foreign operations	**(5.3)**	(3.5)
Other – net	**(3.0)**	(1.2)
Effective tax rate	**23.5%**	28.0%

Our total tax reserves as of June 30, 2012 were $263 million compared with $261 million at March 31, 2012. If these tax reserves were unnecessary, $263 million would affect the effective tax rate in future periods. We recognize accrued interest and penalties, if applicable, related to income taxes in income tax expense. Included in the balance sheet as of June 30, 2012 is accrued interest, where applicable, of $67 million. The additional tax expense related to interest for the six months ended June 30, 2012 was $8 million compared with $5 million for the six months ended June 30, 2011.

As previously disclosed, on Nov. 10, 2009 BNY Mellon filed a petition with the U.S. Tax Court challenging the IRS' disallowance of certain foreign tax credits claimed for the 2001 and 2002 tax years. The aggregate tax for all of the years in question is approximately $900 million, including interest. BNY Mellon continues to believe the tax treatment of the transaction was consistent with statutory and judicial authority existing at the time of the transaction. Trial was held from April 16 to May 17, 2012. Post-trial briefing is scheduled to conclude Sept. 13, 2012. See Note 17 of the Notes to Consolidated Financial Statements for additional information. The Tax Court could reach a decision within the next 12 months. If there is an adverse decision, BNY Mellon will be required to re-evaluate its uncertain tax position with respect to this matter.

Pursuant to ASC 740 (FASB Interpretation 48), it is reasonably possible the total reserve for uncertain tax positions could increase within the next 12 months by an amount up to $930 million as a result of the above matter and adjustments related to tax years that are still subject to examination.

As of June 30, 2012, our federal consolidated income tax returns are closed to examination through 2002. Our New York State and New York City returns are closed to examination through 2008. Our United Kingdom income tax returns are closed to examination through 2008.

Note 12 – Securitizations and variable interest entities

Variable interest entities

Accounting guidance on the consolidation of VIEs is included in ASC 810, *Consolidation*, and ASU 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.”

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

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

- do not have sufficient equity at risk for the entity to finance its activities without additional financial support, or
- lack one or more of the following characteristics of a controlling financial interest:
  - The power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity’s economic performance (ASU 2009-17 model).
  - The direct or indirect ability to make decisions about the entity’s activities through voting rights or similar rights (ASC 810 model).
  - The obligation to absorb the expected losses of the entity.
  - The right to receive the expected residual returns of the entity.

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

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

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

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

The primary beneficiary of these VIEs is the entity whose variable interests provide it with a controlling financial interest, which includes the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses of the VIE or the right to receive benefits of the VIE that could potentially be significant to the VIE.

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

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

The following tables present the incremental assets and liabilities included in BNY Mellon's consolidated financial statements, after applying intercompany eliminations, as of June 30, 2012 and Dec. 31, 2011, based on the assessments performed in accordance with ASC 810 and ASU 2009-17. The net assets of any consolidated VIE are solely available to settle the liabilities of the VIE and to settle any investors' ownership liquidation requests, including any seed capital invested in the VIE by BNY Mellon.

Investments consolidated under ASC 810 and ASU 2009-17 at June 30, 2012

(in millions)	Investment Management funds	Securitizations	Total consolidated investments
Available-for-sale	**$ -**	**$ 495**	**$ 495**
Trading assets	**10,399**	**-**	**10,399**
Other assets	**556**	**-**	**556**
Total assets	**$ 10,955**	**$ 495**	**$ 11,450**
Trading liabilities	**9,752**	**-**	**9,752**
Other liabilities	**38**	**457**	**495**
Total liabilities	**$ 9,790**	**$ 457**	**$ 10,247**
Non-redeemable noncontrolling interests	**$ 722**	**$ -**	**$ 722**

Investments consolidated under ASC 810 and ASU 2009-17 at Dec. 31, 2011

(in millions)	Investment Management funds	Securitizations	Total consolidated investments
Available-for-sale	$ -	$ 479	$ 479
Trading assets	10,751	-	10,751
Other assets	596	-	596
Total assets	$ 11,347	$ 479	$ 11,826
Trading liabilities	10,053	-	10,053
Other liabilities	32	443	475
Total liabilities	$ 10,085	$ 443	$ 10,528
Non-redeemable noncontrolling interests	$ 670	$ -	$ 670

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

Non-consolidated VIEs

As of June 30, 2012 and Dec. 31, 2011, the following assets related to the VIEs, where BNY Mellon is not the primary beneficiary, are included in our consolidated financial statements.

Non-consolidated VIEs at June 30, 2012 *(in millions)*	Assets	Liabilities	Maximum loss exposure
Other	$ 87	$ -	$ 87

Non-consolidated VIEs at Dec. 31, 2011 *(in millions)*	Assets	Liabilities	Maximum loss exposure
Trading	$ 1	$ -	$ 1
Other	41	-	41
Total	$ 42	$ -	$ 42

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

Consolidated credit supported VIEs

Certain funds have been created solely with securities that are subject to credit support agreements where we have agreed to absorb the majority of loss. Accordingly, these funds have been consolidated into BNY Mellon and have affected the following financial statement items at June 30, 2012 and Dec. 31, 2011.

Consolidated credit supported VIEs at June 30, 2012

(in millions)	Assets	Liabilities	Maximum loss exposure
Available-for-sale	$ 9	$ -	$ 9
Other	-	18	1
Total	**$ 9**	**$ 18**	**$ 10**

Consolidated credit supported VIEs at Dec. 31, 2011

(in millions)	Assets	Liabilities	Maximum loss exposure
Available-for-sale	$ 14	$ -	$ 14
Other	-	22	10
Total	$ 14	$ 22	$ 24

The maximum loss exposure shown above for the credit support agreements provided to BNY Mellon's VIEs primarily assumes a complete loss on the Lehman Brothers Holdings Inc. securities for BNY Mellon's clients that accepted our offer of support. As of June 30, 2012, BNY Mellon recorded $18 million in liabilities related to its VIEs for which credit support agreements were provided.

Note 13 – Other comprehensive income

Components of other comprehensive income for the quarter ended June 30, 2012 *(in millions)*	Pre-tax amount	Tax (expense) benefit	After-tax amount
Foreign currency translation adjustment arising during the period	**$ (223)**	**$ (42)**	**$ (265)**
Unrealized gain (loss) on assets available-for-sale:			
Unrealized gain (loss) arising during period	**318**	**(121)**	**197**
Reclassification adjustment	**(50)**	**15**	**(35)**
Net unrealized gain (loss) on assets available-for-sale	**268**	**(106)**	**162**
Defined benefit plans:			
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	**42**	**(18)**	**24**
Total defined benefit plans	**42**	**(18)**	**24**
Unrealized gain (loss) on cash flow hedges:			
Unrealized hedge gain (loss) arising during period	**8**	**(2)**	**6**
Reclassification adjustment	**(9)**	**3**	**(6)**
Net unrealized gain (loss) on cash flow hedges	**(1)**	**1**	**-**
Total other comprehensive income (loss)	**$ 86**	**$ (165)**	**$ (79)**

Components of other comprehensive income for the quarter ended March 31, 2012 *(in millions)*	Pre-tax amount	Tax (expense) benefit	After-tax amount
Foreign currency translation adjustment arising during the period	$ 129	$ 43	$ 172
Unrealized gain (loss) on assets available-for-sale:			
Unrealized gain (loss) arising during period	378	(141)	237
Reclassification adjustment	(40)	16	(24)
Net unrealized gain (loss) on assets available-for-sale	338	(125)	213
Defined benefit plans:			
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	44	(17)	27
Total defined benefit plans	44	(17)	27
Unrealized gain (loss) on cash flow hedges:			
Unrealized hedge gain (loss) arising during period	1	(1)	-
Reclassification adjustment	5	(2)	3
Net unrealized gain (loss) on cash flow hedges	6	(3)	3
Total other comprehensive income (loss)	$ 517	$ (102)	$ 415

Components of other comprehensive income for the quarter ended June 30, 2011 *(in millions)*	Pre-tax amount	Tax (expense) benefit	After-tax amount
Foreign currency translation adjustment arising during the period	$ 120	$ 1	$ 121
Unrealized gain (loss) on assets available-for-sale:			
Unrealized gain (loss) arising during period	244	(85)	159
Reclassification adjustment	(48)	20	(28)
Net unrealized gain (loss) on assets available-for-sale	196	(65)	131
Defined benefit plans:			
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	28	(11)	17
Total defined benefit plans	28	(11)	17
Unrealized gain (loss) on cash flow hedges:			
Unrealized hedge gain (loss) arising during period	(1)	-	(1)
Reclassification adjustment	1	-	1
Net unrealized gain (loss) on cash flow hedges	-	-	-
Total other comprehensive income (loss)	$ 344	$ (75)	$ 269

Components of other comprehensive income for the six months ended June 30, 2012 *(in millions)*	Pre-tax amount	Tax (expense) benefit	After-tax amount
Foreign currency translation adjustment arising during the period	**$ (94)**	**$ 1**	**$ (93)**
Unrealized gain (loss) on assets available-for-sale:			
Unrealized gain (loss) arising during period	**696**	**(262)**	**434**
Reclassification adjustment	**(90)**	**31**	**(59)**
Net unrealized gain (loss) on assets available-for-sale	**606**	**(231)**	**375**
Defined benefit plans:			
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	**86**	**(35)**	**51**
Total defined benefit plans	**86**	**(35)**	**51**
Unrealized gain (loss) on cash flow hedges:			
Unrealized hedge gain (loss) arising during period	**9**	**(3)**	**6**
Reclassification adjustment	**(4)**	**1**	**(3)**
Net unrealized gain (loss) on cash flow hedges	**5**	**(2)**	**3**
Total other comprehensive income (loss)	**$ 603**	**$ (267)**	**$ 336**

Components of other comprehensive income for the six months ended June 30, 2011 *(in millions)*	Pre-tax amount	Tax (expense) benefit	After-tax amount
Foreign currency translation adjustment arising during the period	$ 313	$ 46	$ 359
Unrealized gain (loss) on assets available-for-sale:			
Unrealized gain (loss) arising during period	470	(176)	294
Reclassification adjustment	(53)	23	(30)
Net unrealized gain (loss) on assets available-for-sale	417	(153)	264
Defined benefit plans:			
Amortization of prior service credit, net loss and initial obligation included in net periodic benefit cost	54	(20)	34
Total defined benefit plans	54	(20)	34
Unrealized gain (loss) on cash flow hedges:			
Unrealized hedge gain (loss) arising during period	-	(1)	(1)
Reclassification adjustment	1	-	1
Net unrealized gain (loss) on cash flow hedges	1	(1)	-
Total other comprehensive income (loss)	$ 785	$ (128)	$ 657

Note 14 – Fair value measurement

The guidance related to “Fair Value Measurement” included in ASC 820 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. It establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and expands the disclosures about instruments measured at fair value. ASC 820 requires consideration of a company’s own creditworthiness when valuing liabilities.

The standard provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The objective is to determine from weighted indicators of fair value a reasonable point within the range that is most representative of fair value under current market conditions.

Determination of fair value

Following is a description of our valuation methodologies for assets and liabilities measured at fair value. We have established processes for determining fair values. Fair value is based upon quoted market prices in active markets, where available. For financial instruments where quotes from recent exchange transactions are not available, we determine fair value based on discounted cash flow analysis, comparison to similar instruments, and the use of financial models. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Model-based pricing uses inputs of observable prices, where available, for interest rates, foreign exchange rates, option volatilities and other factors. Models are benchmarked and validated by an independent internal risk management function. Our valuation process takes into consideration factors such as counterparty credit quality, liquidity, concentration concerns, and observability of model parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

Most derivative contracts are valued using internally developed models which are calibrated to observable market data and employ standard market pricing theory for their valuations. An initial “risk-neutral” valuation is performed on each position assuming time-discounting based on a AA credit curve. Then, to arrive at a fair value that incorporates counterparty credit risk, a credit adjustment is made to these results by discounting each trade’s expected exposures to the counterparty using the counterparty’s credit spreads, as implied by the credit default swap market. We also adjust expected liabilities to the counterparty using BNY Mellon’s own credit spreads, as implied by the credit default swap market. Accordingly, the valuation of our derivative position is sensitive to the current changes in our own credit spreads as well as those of our counterparties.

In certain cases, recent prices may not be observable for instruments that trade in inactive or less active markets. Upon evaluating the uncertainty in valuing financial instruments subject to liquidity issues, we make an adjustment to their value. The determination of the liquidity adjustment includes the availability of external quotes, the time since the latest available quote and the price volatility of the instrument.

Certain parameters in some financial models are not directly observable and, therefore, are based on management’s estimates and judgments. These financial instruments are normally traded less actively. We apply valuation adjustments to mitigate the possibility of error and revision in the model-based estimate value. Examples include products where parameters such as correlation and recovery rates are unobservable.

The methods described above for instruments that trade in inactive or less active markets may produce a current fair value calculation that may not be indicative of net realizable value or reflective of future fair values. We believe our methods of determining fair value are appropriate and consistent with other market participants. However, the use of different methodologies or different assumptions to value certain financial instruments could result in a different estimate of fair value.

Valuation hierarchy

ASC 820 established a three-level valuation hierarchy for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are described below.

Level 1: Inputs to the valuation methodology are recent quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 assets and liabilities include debt and equity securities and derivative financial instruments actively traded on exchanges, and U.S. Treasury securities and U.S. Government agency securities that are actively traded in highly liquid over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices, for example, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs that are observable or can be corroborated, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 assets and liabilities include debt instruments that are traded less frequently than exchange-traded securities and derivative instruments whose model inputs are observable in the market or can be corroborated by market observable data. Examples in this category are certain variable and fixed rate agency and non-agency securities, corporate debt securities and derivative contracts.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Examples in this category include interests in certain securitized financial assets, certain private equity investments, and derivative contracts that are highly structured or long-dated.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities

Where quoted prices are available in an active market, we classify the securities within Level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds, money market mutual funds and exchange-traded equities.

If quoted market prices are not available, we estimate fair value using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain agency and non-agency mortgage-backed securities, commercial mortgage-backed securities and European floating rate notes.

For securities where quotes from recent transactions are not available for identical securities, we determine fair value primarily based on pricing sources with reasonable levels of price transparency that employ financial models or obtain comparisons to similar instruments to arrive at "consensus" prices.

Specifically, the pricing sources obtain recent transactions for similar types of securities (e.g., vintage, position in the securitization structure) and ascertain variables such as discount rate and speed of prepayment for the types of transaction and apply such variables to similar types of bonds. We view these as observable transactions in the current marketplace and classify such securities as Level 2. Pricing sources discontinue pricing any specific security whenever they determine there is insufficient observable data to provide a good faith opinion on price.

In addition, we have significant investments in more actively traded agency RMBS and other types of securities such as FDIC-insured debt and sovereign debt. The pricing sources derive the prices for these securities largely from quotes they obtain from three major inter-dealer brokers. The pricing sources receive their daily observed trade price and other information feeds from the inter-dealer brokers.

For securities with bond insurance, the financial strength of the insurance provider is analyzed and that information is included in the fair value assessment for such securities.

In certain cases where there is limited activity or less transparency around inputs to the valuation, we classify those securities in Level 3 of the valuation hierarchy. Securities classified within Level 3 primarily include other debt securities and securities of state and political subdivisions.

At June 30, 2012, approximately 99% of our securities were valued by pricing sources with reasonable levels of price transparency. Less than 1% of our securities were priced based on economic models and non-binding dealer quotes, and are included in Level 3 of the ASC 820 hierarchy.

Consolidated collateralized loan obligations

BNY Mellon values assets in consolidated CLOs using observable market prices observed from the secondary loan market. The returns to the note holders are solely dependent on the assets and accordingly equal the value of those assets. Based on the structure of the CLOs, the valuation of the assets is attributable to the senior note holders. Changes in the values of assets and liabilities are reflected in the income statement as investment income and interest of investment management fund note holders, respectively.

Derivatives

We classify exchange-traded derivatives valued using quoted prices in Level 1 of the valuation hierarchy. Examples include exchanged-traded equity and foreign exchange options. Since few other classes of derivative contracts are listed on an exchange, most of our derivative positions are valued using internally developed models that use as their basis readily observable market parameters, and we classify them in Level 2 of the valuation hierarchy. Such derivatives include basic swaps and options and credit default swaps.

Derivatives valued using models with significant unobservable market parameters in markets that lack two-way flow are classified in Level 3 of the valuation hierarchy. Examples include long-dated interest rate or currency swaps and options, where parameters may be unobservable for longer maturities; and certain products, where correlation rates are unobservable. The fair value of these derivatives compose less than 1% of our derivative financial instruments. Additional disclosures of derivative instruments are provided in Note 16 of the Notes to Consolidated Financial Statements.

Loans and unfunded lending-related commitments

Where quoted market prices are not available, we generally base the fair value of loans and unfunded lending-related commitments on observable market prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, we base the fair value on estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded lending-related commitments.

Unrealized gains and losses on unfunded lending-related commitments carried at fair value are classified in Other assets and Other liabilities, respectively. Loans and unfunded lending-related commitments carried at fair value are generally classified within Level 2 of the valuation hierarchy.

Seed capital

In our Investment Management business we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors; as part of that activity we make seed capital investments in certain funds. Seed capital is included in other assets. When applicable, we value seed capital based on the published NAV of the fund. We include funds in which ownership interests in the fund are publicly traded in an active market and institutional funds in which investors trade in and out daily in Level 1 of the valuation hierarchy. We include open-end funds where investors are allowed to sell their ownership interest back to the fund less frequently than daily and where our interest in the fund contains no other rights or obligations in Level 2 of the valuation hierarchy. However, we generally include investments in funds that allow investors to sell their ownership interest back to the fund less frequently than monthly in Level 3, unless actual redemption prices are observable.

For other types of investments in funds, we consider all of the rights and obligations inherent in our ownership interest, including the reported NAV as well as other factors that affect the fair value of our interest in the fund. To the extent the NAV measurements reported for the investments are based on unobservable inputs or include other rights and obligations (e.g., obligation to meet cash calls), we generally classify them in Level 3 of the valuation hierarchy.

Certain interests in securitizations

For certain interests in securitizations which are classified in securities available-for-sale, trading assets and long-term debt, we use discounted cash flow models which generally include assumptions of projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and estimates of payments to third-party investors. When available, we compare our fair value estimates and assumptions to market activity and to the actual results of the securitized portfolio.

Private equity investments

Our Other segment includes holdings of nonpublic private equity investment through funds managed by third-party investment managers. We value private equity investments initially based upon the transaction price, which we subsequently adjust to reflect expected exit values as evidenced by financing and sale transactions with third parties or through ongoing reviews by the investment managers.

Private equity investments also include publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. These equity investments are often held in a partnership structure. Publicly held investments are marked-to-market at the quoted public value less adjustments for regulatory or contractual sales restrictions or adjustments to reflect the difficulty in selling a partnership interest.

Discounts for restrictions are quantified by analyzing the length of the restriction period and the volatility of the equity security. Publicly held private equity investments are primarily classified in Level 2 of the valuation hierarchy.

The following tables present the financial instruments carried at fair value at June 30, 2012 and Dec. 31, 2011, by caption on the consolidated balance sheet and by ASC 820 valuation hierarchy (as described above). We have included credit ratings information in certain of the tables because the information indicates the degree of credit risk to which we are exposed, and significant changes in ratings classifications could result in increased risk for us. There were no transfers between Level 1 and Level 2 during the second quarter of 2012.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2012 *(dollar amounts in millions)*	Level 1	Level 2	Level 3	Netting *(a)*	Total carrying value
Available-for-sale securities:					
U.S. Treasury	$ 14,470	$ -	$ -	$ -	$ 14,470
U.S. Government agencies	-	1,097	-	-	1,097
Sovereign debt	40	8,989	-	-	9,029
State and political subdivisions *(b)*	-	5,560	42	-	5,602
Agency RMBS	-	33,032	-	-	33,032
Alt-A RMBS	-	258	-	-	258
Prime RMBS	-	764	-	-	764
Subprime RMBS	-	422	-	-	422
Other RMBS	-	2,487	-	-	2,487
Commercial MBS	-	3,320	-	-	3,320
Asset-backed CLOs	-	1,080	-	-	1,080
Other asset-backed securities	-	1,189	-	-	1,189
Equity securities	28	-	-	-	28
Money market funds *(b)*	918	-	-	-	918
Corporate bonds	-	1,628	-	-	1,628
Other debt securities	-	2,251	-	-	2,251
Foreign covered bonds	3,158	770	-	-	3,928
Alt-A RMBS *(c)*	-	1,863	-	-	1,863
Prime RMBS *(c)*	-	1,059	-	-	1,059
Subprime RMBS *(c)*	-	115	-	-	115
Total available-for-sale	18,614	65,884	42	-	84,540
Trading assets:					
Debt and equity instruments *(d)*	751	2,205	60	-	3,016
Derivative assets *(e)*:					
Interest rate	37	27,601	34	N/A	
Foreign exchange	3,014	165	-	N/A	
Equity	123	237	39	N/A	
Total derivative assets	3,174	28,003	73	(27,357)	3,893
Total trading assets	3,925	30,208	133	(27,357)	6,909
Loans	-	8	-	-	8
Other assets *(f)*	187	1,085	138	-	1,410
Subtotal assets of operations at fair value	**22,726**	**97,185**	**313**	**(27,357)**	**92,867**
Percentage of assets prior to netting	19%	81%	-%		
Assets of consolidated investment management funds:					
Trading assets	320	10,079	-	-	10,399
Other assets	393	163	-	-	556
Total assets of consolidated investment management funds	713	10,242	-	-	10,955
Total assets	**$ 23,439**	**$ 107,427**	**$ 313**	**$ (27,357)**	**$ 103,822**
Percentage of assets prior to netting	18%	82%	-%		
Trading liabilities:					
Debt and equity instruments	$ 535	$ 525	$ -	$ -	$ 1,060
Derivative liabilities *(e)*:					
Interest rate	-	28,406	231	N/A	
Foreign exchange	3,010	104	-	N/A	
Equity	86	288	71	N/A	
Total derivative liabilities	3,096	28,798	302	(26,316)	5,880
Total trading liabilities	3,631	29,323	302	(26,316)	6,940
Long-term debt *(b)*	-	339	-	-	339
Other liabilities *(g)*	-	455	-	-	455
Subtotal liabilities at fair value	**3,631**	**30,117**	**302**	**(26,316)**	**7,734**
Percentage of liabilities prior to netting	11%	88%	1%		
Liabilities of consolidated investment management funds:					
Trading liabilities	-	9,752	-	-	9,752
Other liabilities	-	38	-	-	38
Total liabilities of consolidated investment management funds	-	9,790	-	-	9,790
Total liabilities	**$ 3,631**	**$ 39,907**	**$ 302**	**$ (26,316)**	**$ 17,524**
Percentage of liabilities prior to netting	8%	91%	1%		

(a) ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral. Netting cannot be disaggregated by product.
(b) Includes certain interests in securitizations.
(c) Previously included in the Grantor Trust.
(d) Includes loans classified as trading assets and certain interests in securitizations.
(e) The Level 1, 2 and 3 fair values of derivative assets and derivative liabilities are presented on a gross basis.
(f) Includes private equity investments, seed capital, a brokerage account, and derivatives in designated hedging relationships.
(g) Includes the fair value adjustment for certain unfunded lending-related commitments and derivatives in designated hedging relationships and support agreements.

Assets and liabilities measured at fair value on a recurring basis at Dec. 31, 2011 *(dollar amounts in millions)*	Level 1	Level 2	Level 3	Netting *(a)*	Total carrying value
Available-for-sale securities:					
U.S. Treasury	$ 17,326	$ -	$ -	$ -	$ 17,326
U.S. Government agencies	-	958	-	-	958
Sovereign debt	44	11,910	-	-	11,954
State and political subdivisions *(b)*	-	2,694	45	-	2,739
Agency RMBS	-	26,796	-	-	26,796
Alt-A RMBS	-	273	-	-	273
Prime RMBS	-	815	-	-	815
Subprime RMBS	-	418	-	-	418
Other RMBS	-	903	-	-	903
Commercial MBS	-	3,339	-	-	3,339
Asset-backed CLOs	-	1,444	-	-	1,444
Other asset-backed securities	-	532	-	-	532
Equity securities	9	21	-	-	30
Money market funds *(b)*	973	-	-	-	973
Corporate bonds	-	1,738	-	-	1,738
Other debt securities	-	2,622	3	-	2,625
Foreign covered bonds	1,820	605	-	-	2,425
Alt-A RMBS *(c)*	-	1,879	-	-	1,879
Prime RMBS *(c)*	-	1,175	-	-	1,175
Subprime RMBS *(c)*	-	125	-	-	125
Total available-for-sale	20,172	58,247	48	-	78,467
Trading assets:					
Debt and equity instruments *(d)*	485	1,655	63	-	2,203
Derivative assets *(e)*:					
Interest rate	164	26,434	54	N/A	
Foreign exchange	4,519	113	-	N/A	
Equity	91	284	43	N/A	
Other	-	3	-	N/A	
Total derivative assets	4,774	26,834	97	(26,047)	5,658
Total trading assets	5,259	28,489	160	(26,047)	7,861
Loans	-	10	-	-	10
Other assets *(f)*	672	1,019	157	-	1,848
Subtotal assets of operations at fair value	**26,103**	**87,765**	**365**	**(26,047)**	**88,186**
Percentage of assets prior to netting	23%	77%	-%		
Assets of consolidated investment management funds:					
Trading assets	323	10,428	-	-	10,751
Other assets	453	143	-	-	596
Total assets of consolidated investment management funds	776	10,571	-	-	11,347
Total assets	**$ 26,879**	**$ 98,336**	**$ 365**	**$ (26,047)**	**$ 99,533**
Percentage of assets prior to netting	22%	78%	-%		
Trading liabilities:					
Debt and equity instruments	$ 418	$ 537	$ -	$ -	$ 955
Derivative liabilities*(e)*:					
Interest rate	-	27,201	239	N/A	
Foreign exchange	4,311	44	-	N/A	
Equity	55	200	75	N/A	
Total derivative liabilities	4,366	27,445	314	(25,009)	7,116
Total trading liabilities	4,784	27,982	314	(25,009)	8,071
Long-term debt *(b)*	-	326	-	-	326
Other liabilities *(g)*	14	368	-	-	382
Subtotal liabilities at fair value	**4,798**	**28,676**	**314**	**(25,009)**	**8,779**
Percentage of liabilities prior to netting	14%	85%	1%		
Liabilities of consolidated investment management funds:					
Trading liabilities	-	10,053	-	-	10,053
Other liabilities	2	30	-	-	32
Total liabilities of consolidated investment management funds	2	10,083	-	-	10,085
Total liabilities	**$ 4,800**	**$ 38,759**	**$ 314**	**$ (25,009)**	**$ 18,864**
Percentage of liabilities prior to netting	11%	88%	1%		

(a) ASC 815 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral. Netting cannot be disaggregated by product.
(b) Includes certain interests in securitizations.
(c) Previously included in the Grantor Trust.
(d) Includes loans classified as trading assets and certain interests in securitizations.
(e) The Level 1, 2 and 3 fair values of derivative assets and derivative liabilities are presented on a gross basis.
(f) Includes private equity investments, seed capital, a brokerage account, and derivatives in designated hedging relationships.
(g) Includes the fair value adjustment for certain unfunded lending-related commitments and derivatives in designated hedging relationships and support agreements.

Details of certain items measured at fair value on a recurring basis	June 30, 2012					Dec. 31, 2011				
	Total carrying value *(a)*	Ratings				Total carrying value *(a)*	Ratings			
(dollar amounts in millions)		AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower		AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower
Alt-A RMBS, originated in:										
2006-2007	$ 97	-%	-%	-%	100%	$ 99	-%	-%	-%	100%
2005	101	-	-	-	100	113	-	-	-	100
2004 and earlier	60	24	14	38	24	61	27	13	47	13
Total Alt-A RMBS	$ 258	6%	3%	9%	82%	$ 273	6%	3%	11%	80%
Prime RMBS, originated in:										
2007	$ 109	42%	4%	-%	54%	$ 121	38%	4%	-%	58%
2006	72	-	-	-	100	75	-	-	-	100
2005	223	33	-	-	67	230	32	-	-	68
2004 and earlier	360	21	41	6	32	389	29	38	11	22
Total prime RMBS	$ 764	25%	20%	3%	52%	$ 815	28%	19%	5%	48%
Subprime RMBS, originated in:										
2007	$ 1	-%	-%	100%	-%	$ 2	-%	2%	98%	-%
2005	94	22	12	26	40	82	23	12	29	36
2004 and earlier	327	3	7	15	75	334	5	15	18	62
Total subprime RMBS	$ 422	7%	8%	18%	67%	$ 418	8%	14%	21%	57%
Commercial MBS - Domestic, originated in:										
2009-2012	$ 198	100%	-%	-%	-%	$ 200	100%	-%	-%	-%
2008	25	15	85	-	-	25	16	84	-	-
2007	867	49	37	14	-	789	66	26	8	-
2006	1,038	78	22	-	-	892	85	15	-	-
2005	796	94	6	-	-	696	94	6	-	-
2004 and earlier	396	95	4	1	-	403	97	2	1	-
Total commercial MBS - Domestic	$ 3,320	77%	19%	4%	-%	$ 3,005	84%	14%	2%	-%
Foreign covered bonds:										
Germany	$ 1,299	99%	1%	-%	-%	$ 1,461	99%	1%	-%	-%
Canada	963	100	-	-	-	795	100	-	-	-
United Kingdom	660	100	-	-	-	25	100	-	-	-
Other	1,006	100	-	-	-	144	100	-	-	-
Total foreign covered bonds	$ 3,928	100%	-%	-%	-%	$ 2,425	100%	-%	-%	-%
European floating rate notes – available-for-sale:										
United Kingdom	$ 1,550	78%	21%	1%	-%	$ 686	72%	28%	-%	-%
Netherlands	804	100	-	-	-	47	35	65	-	-
Ireland	182	12	-	22	66	203	-	50	47	3
Italy	133	100	-	-	-	150	100	-	-	-
Luxembourg	-	-	-	-	-	140	-	100	-	-
Australia	85	93	7	-	-	101	91	9	-	-
Spain	23	100	-	-	-	-	-	-	-	-
Germany	62	-	10	89	1	93	21	6	73	-
France	9	100	-	-	-	9	100	-	-	-
Total European floating rate notes – available-for-sale	$ 2,848	80%	12%	4%	4%	$ 1,429	55%	34%	11%	-%
Sovereign debt:										
United Kingdom	$ 4,738	100%	-%	-%	-%	$ 4,526	100%	-%	-%	-%
Netherlands	2,182	100	-	-	-	2,230	100	-	-	-
France	1,564	100	-	-	-	2,790	100	-	-	-
Germany	489	100	-	-	-	2,347	100	-	-	-
Other	56	98	2	-	-	61	97	3	-	-
Total sovereign debt	$ 9,029	100%	-%	-%	-%	$ 11,954	100%	-%	-%	-%
Alt-A RMBS *(b)*, originated in:										
2007	$ 552	-%	-%	-%	100%	$ 554	-%	-%	-%	100%
2006	495	-	-	-	100	488	-	-	-	100
2005	606	4	-	1	95	628	5	-	1	94
2004 and earlier	210	-	4	23	73	209	-	4	27	69
Total Alt-A RMBS *(b)*	$ 1,863	1%	1%	3%	95%	$ 1,879	2%	-%	3%	95%
Prime RMBS *(b)*, originated in:										
2007	$ 327	-%	-%	-%	100%	$ 370	-%	-%	-%	100%
2006	285	-	-	-	100	308	-	-	-	100
2005	414	1	2	-	97	465	-	4	-	96
2004 and earlier	33	5	3	23	69	32	9	-	22	69
Total prime RMBS *(b)*	$ 1,059	-%	1%	1%	98%	$ 1,175	-%	2%	1%	97%
Subprime RMBS *(b)*, originated in:										
2005-2007	$ 80	-%	-%	-%	100%	$ 88	-%	-%	-%	100%
2004 and earlier	35	6	-	34	60	37	5	34	-	61
Total subprime RMBS *(b)*	$ 115	2%	-%	3%	95%	$ 125	2%	10%	-%	88%

(a) *At June 30, 2012 and Dec. 31, 2011, the German foreign covered bonds were considered Level 1 in the valuation hierarchy. All other assets in the table above are primarily Level 2 assets in the valuation hierarchy.*

(b) *Previously included in the Grantor Trust.*

Changes in Level 3 fair value measurements

The tables below include a roll forward of the balance sheet amounts (including the change in fair value) for financial instruments classified in Level 3 of the valuation hierarchy.

Our classification of a financial instrument in Level 3 of the valuation hierarchy is based on the significance of the unobservable factors to the overall fair value measurement. However, these instruments generally include other observable components that are actively quoted or validated to third-party sources; accordingly, the gains and losses in the table below include changes in fair value due to observable parameters as well as the unobservable parameters in our valuation methodologies. We also frequently manage the risks of Level 3 financial instruments using securities and derivatives positions that are Level 1 or 2 instruments which are not included in the table; accordingly, the gains or losses below do not reflect the effect of our risk management activities related to the Level 3 instruments.

Fair value measurements for assets using significant unobservable inputs for three months ended June 30, 2012

	Available-for-sale securities	Trading assets			
(in millions)	State and political subdivisions	Debt and equity instruments	Derivative assets *(a)*	Other assets	Total assets
Fair value at March 31, 2012	$ 43	$ 58	$ 72	$ 151	$ 324
Total gains or (losses) for the period:					
Included in earnings (or changes in net assets)	- *(b)*	3 *(c)*	1 *(c)*	(2) *(d)*	2
Purchases, sales and settlements:					
Purchases	-	-	-	2	2
Sales	-	(1)	-	(13)	(14)
Settlements	(1)	-	-	-	(1)
Fair value at June 30, 2012	**$ 42**	**$ 60**	**$ 73**	**$ 138**	**$ 313**
Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period		$ 2	$ 4	$ -	$ 6

(a) Derivative assets are reported on a gross basis.
(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(c) Reported in foreign exchange and other trading revenue.
(d) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs for three months ended June 30, 2012

	Trading liabilities	
(in millions)	Derivative liabilities *(a)*	Total liabilities
Fair value at March 31, 2012	$ 246	$ 246
Total (gains) or losses for the period:		
Included in earnings (or changes in net liabilities)	56 *(b)*	56
Fair value at June 30, 2012	**$ 302**	**$ 302**
Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period	$ 66	$ 66

(a) Derivative liabilities are reported on a gross basis.
(b) Reported in foreign exchange and other trading revenue.

Fair value measurements for assets using significant unobservable inputs for three months ended June 30, 2011

	Available-for-sale securities		Trading assets				
(in millions)	State and political subdivisions	Other debt securities	Debt and equity instruments	Derivative assets *(a)*	Loans	Other assets	Total assets
Fair value at March 31, 2011	$ 10	$ 64	$ 32	$ 131	$ 4	$ 120	$ 361
Transfers into Level 3	-	2	27	2	-	-	31
Transfers out of Level 3	-	-	(23)	(29)	-	-	(52)
Total gains or (losses):							
Included in earnings (or changes in net assets)	- *(b)*	- *(b)*	- *(c)*	4 *(c)*	-	(4) *(d)*	-
Purchases, issuances, sales and settlements:							
Issuances	-	-	-	-	1	-	1
Settlements	-	-	-	(1)	-	-	(1)
Fair value at June 30, 2011	**$ 10**	**$ 66**	**$ 36**	**$ 107**	**$ 5**	**$ 116**	**$ 340**
Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period			$ -	$ 7	$ -	$ -	$ 7

(a) Derivative assets are reported on a gross basis.
(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(c) Reported in foreign exchange and other trading revenue.
(d) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs for three months ended June 30, 2011

(in millions)	Trading liabilities Derivative liabilities *(a)*	Other liabilities	Total liabilities
Fair value at March 31, 2011	$ 126	$ 2	$ 128
Transfers into Level 3	1	-	1
Total (gains) or losses:			
Included in earnings (or changes in net assets)	37 *(b)*	(2)	35
Purchases, issuances, sales and settlements:			
Settlements	(9)	-	(9)
Fair value at June 30, 2011	**$ 155**	**$ -**	**$ 155**
Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period	$ 45	$ (2)	$ 43

(a) Derivative liabilities are reported on a gross basis.
(b) Reported in foreign exchange and other trading revenue.

Fair value measurements for assets using significant unobservable inputs for six months ended June 30, 2012

	Available-for-sale securities		Trading assets			
(in millions)	State and political subdivisions	Other debt securities	Debt and equity instruments	Derivative assets *(a)*	Other assets	Total assets
Fair value at Dec. 31, 2011	$ 45	$ 3	$ 63	$ 97	$ 157	$ 365
Total gains or (losses) for the period:						
Included in earnings (or changes in net assets)	- *(b)*	(3) *(b)*	- *(c)*	(24) *(c)*	1 *(d)*	(26)
Purchases, sales and settlements:						
Purchases	-	-	-	-	5	5
Sales	-	-	(3)	-	(17)	(20)
Settlements	(3)	-	-	-	(8)	(11)
Fair value at June 30, 2012	**$ 42**	**$ -**	**$ 60**	**$ 73**	**$ 138**	**$ 313**
Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period			$ -	$ (7)	$ -	$ (7)

(a) Derivative assets are reported on a gross basis.
(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(c) Reported in foreign exchange and other trading revenue.
(d) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs for six months ended June 30, 2012

(in millions)	Trading liabilities Derivative liabilities *(a)*	Total liabilities
Fair value at Dec. 31, 2011	$ 314	$ 314
Total (gains) or losses for the period:		
Included in earnings (or changes in net liabilities)	(12) *(b)*	(12)
Fair value at June 30, 2012	**$ 302**	**$ 302**
Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period	$ (8)	$ (8)

(a) Derivative liabilities are reported on a gross basis.
(b) Reported in foreign exchange and other trading revenue.

Fair value measurements for assets using significant unobservable inputs for six months ended June 30, 2011

	Available-for-sale securities		Trading assets				
(in millions)	State and political subdivisions	Other debt securities	Debt and equity instruments	Derivative assets *(a)*	Loans	Other assets	Total assets
Fair value at Dec. 31, 2010	$ 10	$ 58	$ 32	$ 119	$ 6	$ 113	$ 338
Transfers into Level 3	-	8	27	3	-	-	38
Transfers out of Level 3	-	-	(23)	(43)	(2)	-	(68)
Total gains or (losses):							
Included in earnings (or changes in net assets)	- *(b)*	- *(b)*	- *(c)*	29 *(c)*	-	2 *(d)*	31
Purchases, issuances, sales and settlements:							
Purchases	-	-	-	-	-	1	1
Issuances	-	-	-	-	1	-	1
Settlements	-	-	-	(1)	-	-	(1)
Fair value at June 30, 2011	**$ 10**	**$ 66**	**$ 36**	**$ 107**	**$ 5**	**$ 116**	**$ 340**
Change in unrealized gains or (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period			$ -	$ 39	$ -	$ -	$ 39

(a) Derivative assets are reported on a gross basis.
(b) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss) except for the credit portion of OTTI losses which are recorded in securities gains (losses).
(c) Reported in foreign exchange and other trading revenue.
(d) Reported in investment and other income.

Fair value measurements for liabilities using significant unobservable inputs for six months ended June 30, 2011

	Trading liabilities			
(in millions)	Debt and equity instruments	Derivative liabilities *(a)*	Other liabilities	Total liabilities
Fair value at Dec. 31, 2010	$ 6	$ 171	$ 2	$ 179
Transfer into Level 3	-	1	-	1
Total (gains) or losses:				
Included in earnings (or changes in net assets)	-	(4) *(b)*	(2)	(6)
Purchases, issuances, sales and settlements:				
Settlements	(6)	(13)	-	(19)
Fair value at June 30, 2011	**$ -**	**$ 155**	**$ -**	**$ 155**
Change in unrealized (gains) or losses for the period included in earnings (or changes in net assets) for liabilities held at the end of the reporting period	$ -	$ 19	$ (2)	$ 17

(a) Derivative liabilities are reported on a gross basis.
(b) Reported in foreign exchange and other trading revenue.