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

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2013

or

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

Commission File No. 001-35651

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X 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 X 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 [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

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

Class	Outstanding as of September 30, 2013
Common Stock, $0.01 par value	1,148,521,551

THE BANK OF NEW YORK MELLON CORPORATION

Third Quarter 2013 Form 10-Q
Table of Contents

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

Consolidated Financial Highlights (unaudited)

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

Average common shares and equivalents outstanding (in thousands):					
Basic	1,148,724	1,152,545	1,169,674	1,153,327	1,181,614
Diluted	1,152,679	1,155,981	1,171,534	1,156,951	1,183,309
Capital ratios:					
Estimated Basel III Tier 1 common equity ratio – Non-GAAP (a) (g):					
Standardized Approach	10.1 %	9.3 %	N/A	10.1 %	N/A
Advanced Approach	11.1 %	9.8 %	9.3 %	11.1 %	9.3 %
Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP (a)	14.2 %	13.2 %	13.3 %	14.2 %	13.3 %
Basel I Tier 1 capital ratio	15.8 %	14.8 %	15.3 %	15.8 %	15.3 %
Basel I Total (Tier 1 plus Tier 2) capital ratio	16.8 %	15.8 %	16.9 %	16.8 %	16.9 %
Basel I leverage capital ratio	5.6 %	5.3 %	5.6 %	5.6 %	5.6 %
BNY Mellon shareholders' equity to total assets ratio (a)	9.9 %	10.0 %	10.7 %	9.9 %	10.7 %
BNY Mellon common shareholders' equity to total assets ratio (a)	9.5 %	9.5 %	10.3 %	9.5 %	10.3 %
BNY Mellon tangible common shareholders' equity to tangible assets of operations ratio – Non-GAAP (a)	6.4 %	5.8 %	6.3 %	6.4 %	6.3 %

Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended Sept. 30, 2013	June 30, 2013	Sept. 30, 2012	Year-to-date Sept. 30, 2013	Sept. 30, 2012
Selected average balances:					
Interest-earning assets	$271,150	$268,481	$255,228	$268,480	$243,814
Assets of operations	$329,887	$325,931	$307,919	$326,020	$297,219
Total assets	$341,750	$337,455	$318,914	$337,651	$308,459
Interest-bearing deposits	$153,547	$151,219	$138,260	$150,853	$131,418
Noninterest-bearing deposits	$72,075	$70,648	$70,230	$71,026	$66,581
Preferred stock	$1,562	$1,350	$611	$1,328	$225
Total The Bank of New York Mellon Corporation common shareholders' equity	$34,264	$34,467	$34,522	$34,541	$34,123
Other information at period end:					
Cash dividends per common share	$0.15	$0.15	$0.13	$0.43	$0.39
Common dividend payout ratio (h)	18 %	21 %	21 %	33 %	26 %
Common dividend yield (annualized)	2.0 %	2.1 %	2.3 %	1.9 %	2.3 %
Closing common stock price per common share	$30.19	$28.05	$22.62	$30.19	$22.62
Market capitalization	$34,674	$32,271	$26,434	$34,674	$26,434
Book value per common share – GAAP (a)	$30.82	$29.83	$30.11	$30.82	$30.11
Tangible book value per common share – Non-GAAP (a)	$13.36	$12.41	$12.59	$13.36	$12.59
Full-time employees	50,800	49,800	48,700	50,800	48,700
Common share outstanding (in thousands)	1,148,522	1,150,477	1,168,607	1,148,522	1,168,607

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

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

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

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

(e) Includes the AUC/A of CIBC Mellon Global Securities Services Company ("CIBC Mellon"), a joint venture with the Canadian Imperial Bank of Commerce, of $1.2 trillion at Sept. 30, 2013, $1.1 trillion at June 30, 2013 and $1.2 trillion at Sept. 30, 2012.

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

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

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

N/A – Not available.

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

General

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

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

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

How we reported results

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

Overview

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

Key third quarter 2013 and subsequent events

Proposed rulemaking concerning implementation of minimum liquidity standards

On Oct. 24, 2013, the Federal Reserve approved a notice of proposed rulemaking developed jointly with the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC") regarding the U.S. implementation of the Basel III liquidity coverage ratio (the "LCR Notice"). The LCR Notice would establish a quantitative liquidity coverage ratio requirement for certain banking organizations, including BNY Mellon, designed to ensure that such organizations maintain an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario. This proposal is expected to be open for comment until Jan. 31, 2014. For additional information regarding the LCR Notice, see "Recent accounting and regulatory developments - Regulatory developments".

Sale of Newton’s private client business

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

U.S. Tax Court ruling

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

New risk-based and leverage regulatory capital rules

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

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

Supplementary leverage ratio proposals

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

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

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

Highlights of third quarter 2013 results

In the third quarter of 2013, we reported net income applicable to common shareholders of BNY Mellon of $967 million, or $0.82 per diluted common share, including a $261 million, or $0.22 per diluted common share, benefit related to the U.S. Tax Court’s partial reconsideration of a tax decision. These results compare with $720 million, or $0.61 per diluted common share, in the third quarter of 2012 and $833 million, or $0.71 per diluted common share, in the second quarter of 2013. The second quarter of 2013 results include an after-tax gain of $109 million, or $0.09 per diluted common share, related to an equity investment.

Highlights of the third quarter 2013 include:

- Assets under custody and/or administration (“AUC/A”) totaled $27.4 trillion at Sept. 30, 2013 compared with $26.4 trillion at Sept. 30, 2012 and $26.2 trillion at June 30, 2013. The year-over-year increase of 4% primarily reflects higher market values and net new business. See the “Investment Services business” beginning on page 22.)
- Assets under management (“AUM”) totaled a record $1.53 trillion at Sept. 30, 2013 compared with $1.36 trillion at Sept. 30, 2012 and $1.43 trillion at June 30, 2013. The year-over-year increase of 13% primarily resulted from net new business and higher market values. (See the “Investment Management business” beginning on page 19).
- Investment services fees increased 4% in the third quarter of 2013 compared with the third quarter of 2012. The increase was driven by higher clearing services, asset servicing, and issuer services revenue. (See the “Investment Services business” beginning on page 22).
- Investment management and performance fees totaled $821 million in the third quarter of 2013, an increase of 5%, compared with $779 million in the third quarter of 2012. The increase was driven by higher equity market values and net new business, partially offset by the average impact of the stronger U.S. dollar. (See the “Investment Management business” beginning on page 19).
- Foreign exchange and other trading revenue totaled $160 million in the third quarter of 2013 compared with $182 million in the third quarter of 2012. In the third quarter of 2013, foreign exchange revenue increased 27% year-over-year, driven by higher volumes and volatility. Other trading revenue decreased in the third quarter of 2013 reflecting lower fixed income trading. (See “Fee and other revenue” beginning on page 7).
- Investment income and other revenue totaled $135 million in the third quarter of 2013 compared with $124 million in the third quarter of 2012. The increase primarily resulted from higher equity investment revenue, partially offset by lower seed capital gains. (See “Fee and other revenue” beginning on page 7).

- Net interest revenue totaled $772 million in the third quarter of 2013 compared with $749 million in the third quarter of 2012. The increase was primarily driven by lower premium amortization on investment securities, higher average interest-earning assets, a change in the mix of earning assets, and lower funding costs. (See “Net interest revenue” beginning on page 11).
- The net unrealized pre-tax gain on our total investment securities portfolio was $723 million at Sept. 30, 2013 compared with $656 million at June 30, 2013. The increase primarily reflects lower credit spreads on foreign securities. (See “Investment securities” beginning on page 30).
- The provision for credit losses was $2 million in the third quarter of 2013 and a credit of $5 million in the the third quarter of 2012. (See “Asset quality and allowance for credit losses” beginning on page 35).
- Noninterest expense totaled $2.8 billion in the third quarter of 2013 compared with $2.7 billion in the third quarter of 2012. The increase primarily resulted from higher staff expense. (See “Noninterest expense” beginning on page 14).
- The benefit for income taxes totaled $2 million for the third quarter of 2013 and included a benefit of $261 million related to the U.S. Tax Court’s partial reconsideration of a tax decision. This compared with an income tax provision of $225 million (23.1% effective tax rate) in the third quarter of 2012. (See “Income taxes” on page 16).
- At Sept. 30, 2013, our estimated Basel III Tier 1 common equity ratio (Non-GAAP) calculated under the Standard Approach, on a fully phased-in basis, was 10.1% compared with 9.3% at June 30, 2013. (See “Capital” beginning on page 44).
- In the third quarter of 2013, we repurchased 3.9 million common shares in the open market, at an average price of $31.28 per share, for a total of $121 million.
- From Oct. 1, 2013 through Nov. 7, 2013, we repurchased 10.0 million common shares in the open market, at an average price of $31.83 per common share for a total of $318 million.

Fee and other revenue

Fee and other revenue				3Q13 vs.		Year-to-date		YTD13 vs.
(dollars in millions, unless otherwise noted)	3Q13	2Q13	3Q12	3Q12	2Q13	2013	2012	YTD12
Investment services fees:								
Asset servicing (a)	$964	$988	$942	2 %	(2)%	$2,921	$2,835	3 %
Issuer services	322	294	311	4	10	853	837	2
Clearing services	315	321	287	10	(2)	940	899	5
Treasury services	137	139	138	(1)	(1)	417	408	2
Total investment services fees	1,738	1,742	1,678	4	—	5,131	4,979	3
Investment management and performance fees	821	848	779	5	(3)	2,491	2,321	7
Foreign exchange and other trading revenue	160	207	182	(12)	(23)	528	553	(5)
Distribution and servicing	43	45	48	(10)	(4)	137	140	(2)
Financing-related fees	44	44	46	(4)	—	129	127	2
Investment and other income	135	269	124	9	N/M	476	311	N/M
Total fee revenue	2,941	3,155	2,857	3	(7)	8,892	8,431	5
Net securities gains	22	32	22	N/M	N/M	102	112	N/M
Total fee and other revenue - GAAP	$2,963	$3,187	$2,879	3 %	(7)%	$8,994	$8,543	5 %
Fee revenue as a percentage of total revenue excluding net securities gains	79 %	79 %	78 %			79 %	78 %	
AUM at period end (in billions) (b)	$1,532	$1,432	$1,359	13 %	7 %	$1,532	$1,359	13 %
AUC/A at period end (in trillions) (c)	$27.4	$26.2	$26.4	4 %	5 %	$27.4	$26.4	4 %

(a) Asset servicing fees include securities lending revenue of $35 million in the third quarter of 2013, $50 million in the second quarter of 2013, $49 million in the third quarter of 2012, $124 million in the first nine months of 2013 and $157 million in the first nine months of 2012.
(b) Excludes securities lending cash management assets and assets managed in the Investment Services business.
(c) Includes the AUC/A of CIBC Mellon of $1.2 trillion at Sept. 30, 2013, $1.1 trillion at June 30, 2013 and $1.2 trillion at Sept. 30, 2012.
N/M - Not meaningful.

Fee and other revenue

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

Investment services fees

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

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

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

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

- Clearing services fees increased 10% year-over-year and decreased 2% (unannualized) sequentially. The year-over-year increase was driven by higher mutual fund and asset-based fees and volumes, partially offset by higher money market fee waivers. The sequential decrease was primarily driven by seasonally lower clearance revenue reflecting a decrease in DARTs, and higher money market fee waivers.
- Treasury services fees decreased 1% both year-over-year and (unannualized) sequentially. Both decreases primarily reflect lower cash management fees.

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

Investment management and performance fees

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

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

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

Foreign exchange and other trading revenue

Foreign exchange and other trading revenue

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

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

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

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

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

Distribution and servicing fees

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

Financing-related fees

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

Investment and other income

Investment and other income

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

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

Net securities gains

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

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

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

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

Net interest revenue

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

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

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

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

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

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

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

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

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

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

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

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

Noninterest expense

Noninterest expense								
				3Q13 vs.		Year-to-date		YTD13 vs.
(dollars in millions)	3Q13	2Q13	3Q12	3Q12	2Q13	2013	2012	YTD12
Staff:								
Compensation	$915	$891	$893	2 %	3 %	$2,691	$2,620	3 %
Incentives	339	364	306	11	(7)	1,041	969	7
Employee benefits	262	254	237	11	3	765	715	7
Total staff	1,516	1,509	1,436	6	—	4,497		