Bank of New York Mellon CORP
Form 10-Q
May 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2011

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	*(I.R.S. Employer Identification No.)*
incorporation or organization)	

One Wall Street

New York, New York 10286

(Address of principal executive offices)(Zip Code)

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

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

Yes ü No ____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 ü No ____

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

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

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

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

Class	Outstanding as of March 31, 2011
Common Stock, $0.01 par value	1,241,723,885

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THE BANK OF NEW YORK MELLON CORPORATION

FIRST QUARTER 2011 FORM 10-Q

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended March 31, 2011	Dec. 31, 2010 *(a)*	March 31, 2010 *(a)*
Net income basis:			
Reported results applicable to common shareholders of The Bank of New York Mellon Corporation:			
Net income	**$ 625**	$ 679	$ 559
Basic EPS	**0.50**	0.55	0.46
Diluted EPS	**0.50**	0.54	0.46
Return on common equity *(annualized)*	**7.7%**	8.3%	7.6%
Return on average assets *(annualized)*	**0.98%**	1.05%	1.01%
Continuing operations:			
Results from continuing operations applicable to common shareholders of The Bank of New York Mellon Corporation:			
Income from continuing operations	**$ 625**	$ 690	$ 601
Basic EPS from continuing operations	**0.50**	0.55	0.50
Diluted EPS from continuing operations	**0.50**	0.55	0.49
Fee and other revenue	**$ 2,838**	$ 2,972	$ 2,529
Income of consolidated investment management funds	**110**	59	65
Net interest revenue	**698**	720	765
Total revenue	**$ 3,646**	$ 3,751	$ 3,359
Return on common equity *(annualized) (b)*	**7.7%**	8.5%	8.2%
Return on tangible common equity *(annualized)* Non-GAAP *(b)*	**24.3%**	27.5%	25.8%
Fee revenue as a percentage of total revenue excluding net securities gains	**78%**	79%	75%
Annualized fee revenue per employee (based on average headcount) *(in thousands)*	**$ 238**	$ 246	$ 242
Percentage of non-U.S. total revenue	**37%**	38%	35%
Pre-tax operating margin *(b)*	**26%**	26%	26%
Non-GAAP adjusted *(b)*	**28%**	30%	34%
Net interest margin (FTE)	**1.49%**	1.54%	1.89%
Assets under management (AUM) at period end *(in billions)*	**$ 1,229**	$ 1,172	$ 1,105
Assets under custody and administration (AUC) at period end *(in trillions)*	**$ 25.5**	$ 25.0	$ 22.4
Equity securities	**32%**	32%	30%
Fixed income securities	**68%**	68%	70%
Cross-border assets at period end *(in trillions)*	**$ 9.9**	$ 9.2	$ 8.8
Market value of securities on loan at period end *(in billions) (c)*	**$ 278**	$ 278	$ 253
Average common shares and equivalents outstanding *(in thousands)*:			
Basic	**1,234,076**	1,232,568	1,202,533
Diluted	**1,238,284**	1,235,670	1,206,286

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The Bank of New York Mellon Corporation

Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended March 31, 2011	Dec. 31, 2010 *(a)*	March 31, 2010 *(a)*
Capital ratios*:*			
Tier 1 capital ratio *(d)*	**14.0%**	13.4%	13.3%
Total (Tier 1 plus Tier 2) capital ratio *(d)*	**16.8%**	16.3%	17.2%
Common shareholders equity to total assets ratio *(b)*	**12.5%**	13.1%	13.5%
Tangible common shareholders equity to tangible assets of operations ratio Non-GAAP *(b)*	**5.9%**	5.8%	6.1%
Tier 1 common equity to risk-weighted assets ratio Non-GAAP *(b)(d)*	**12.4%**	11.8%	11.6%
Selected average balances:			
Interest-earning assets	**$ 190,185**	$ 187,597	$ 163,429
Assets of operations	**$ 243,356**	$ 241,734	$ 212,685
Total assets	**$ 257,698**	$ 256,409	$ 225,415
Interest-bearing deposits	**$ 116,515**	$ 111,776	$ 101,034
Noninterest-bearing deposits	**$ 38,616**	$ 39,625	$ 33,330
Total The Bank of New York Mellon Corporation shareholders equity	**$ 32,827**	$ 32,379	$ 29,715
Other information at period end:			
Full-time employees	**48,400**	48,000	42,300
Cash dividends per common share	**$ 0.09**	$ 0.09	$ 0.09
Dividend yield *(annualized)*	**1.2%**	1.2%	1.2%
Closing common stock price per common share	**$ 29.87**	$ 30.20	$ 30.88
Market capitalization	**$ 37,090**	$ 37,494	$ 37,456
Book value per common share GAAP *(b)*	**$ 26.78**	$ 26.06	$ 24.47
Tangible book value per common share Non-GAAP *(b)*	**$ 9.67**	$ 8.91	$ 8.69
Common shares outstanding *(in thousands)*	**1,241,724**	1,241,530	1,212,941

(a) Presented on a continuing operations basis.

(b) See Supplemental Information beginning on page 42 for a calculation of these ratios.

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

(d) Determined under Basel I regulatory guidelines. The quarters ended Dec. 31, 2010 and March 31, 2010 include discontinued operations.

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Part I Financial Information

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

General

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

Certain business terms used in this document are defined in the glossary included in our 2010 Annual Report on Form 10-K.

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

How we reported results

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

Throughout this Form 10-Q, certain measures, which are noted, exclude certain items. BNY Mellon believes that these measures are useful to investors because they permit a focus on period-to-period comparisons, 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 certain amounts on a fully taxable equivalent (FTE) basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. The adjustment to an FTE basis has no impact on net income. Certain immaterial reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. See Supplemental information Explanation of Non-GAAP financial measures beginning on page 42 for a reconciliation of financial measures presented in accordance with GAAP to adjusted Non-GAAP financial measures.

In the first quarter of 2011, BNY Mellon realigned its internal reporting structure and business presentation to focus on its two principal businesses, Investment Management and Investment Services.

The realignment reflects management s current approach to assessing performance and decisions regarding resource allocations. Investment Management includes the former Asset Management and Wealth Management businesses. Investment Services includes the former Asset Servicing, Issuer Services and Clearing Services businesses as well as the Cash Management business previously included in the Treasury Services business. The credit-related activities previously included in the Treasury Services business, are now included in the Other segment. The income statement has been changed to reflect this realignment as follows:

- Investment management and performance fees consist of the former asset and wealth management fee revenue; and
- Investment services fees consist of the former securities servicing fees, including asset servicing, issuer services, clearing services, as well as treasury services fee revenue.

All prior periods have been reclassified. The reclassifications did not affect the results of operations.

Overview

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a leading manager and servicer of financial assets globally, operating in 36 countries and serving more than 100 markets. Our global client base consists of the world s largest financial institutions, corporations, government agencies, high-net-worth individuals, families, endowments and foundations and related entities. At March 31, 2011, we had $25.5 trillion in assets under custody and administration and $1.23 trillion in assets under management, serviced $11.9 trillion in outstanding debt and, on average, processed $1.7 trillion of global payments per day.

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

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

First quarter 2011 and subsequent events

Dividend increase and share repurchase program

In March 2011, BNY Mellon received confirmation that the Federal Reserve did not object to its comprehensive capital plan which provides for capital actions, including a dividend increase and share repurchases. Accordingly, on March 22, 2011, the board of directors authorized a 44% increase in the quarterly common stock dividend to $0.13 per common share. This cash dividend is payable on May 10, 2011, to shareholders of record as of the close of business on April 29, 2011.

In addition, the board approved an increase of 13 million shares to the current share repurchase program authorization, which increased the total common shares available for repurchase to 46.8 million, representing approximately 4% of common shares outstanding. Our current capital plan anticipates the repurchase of up to $1.3 billion worth of outstanding common stock in 2011. During the first quarter of 2011, we repurchased 1.1 million shares. During April of 2011, we repurchased an additional 0.9 million shares.

Agreement to sell Shareowner Services

On April 27, 2011, BNY Mellon announced a definitive agreement to sell its Shareowner Services business. The sales price of $550 million is expected to result in a pre-tax gain and a modest after-tax loss primarily due to the write-off of non-tax deductible goodwill associated with the business. This transaction reflects BNY Mellon s strategic focus on growing globally our Investment

Management and Investment Servicing businesses. The transaction will further enhance BNY Mellon s strong capital ratios, generating more than $200 million in additional capital. The transaction is anticipated to close in the third quarter of 2011, subject to regulatory approval.

Agreement to acquire Talon Asset Management

On April 28, 2011, BNY Mellon announced an agreement to acquire the wealth management operations of Chicago-based Talon Asset Management (Talon) which manages more than $800 million in assets for wealthy families and institutions. The acquisition of Talon represents BNY Mellon s first wealth management office in Chicago, the third largest wealth management market in the U.S. At closing, Talon will be included in the Investment Management business. This transaction is expected to close in the second quarter of 2011.

Highlights of first quarter 2011 results

We reported net income applicable to common shareholders of BNY Mellon of $625 million, or $0.50 per diluted common share, in the first quarter of 2011 compared with net income from continuing operations of $601 million, or $0.49 per diluted common share, in the first quarter of 2010 and $690 million, or $0.55 per diluted common share, in the fourth quarter of 2010.

Net income applicable to common shareholders, totaled $625 million, or $0.50 per diluted common share, in the first quarter of 2011 compared with net income applicable to common shareholders, including discontinued operations, of $559 million, or $0.46 per diluted common share, in the first quarter of 2010 and $679 million, or $0.54 per diluted common share, in the fourth quarter of 2010.

Highlights for the first quarter of 2011 include:

Assets under custody and administration (AUC) totaled a record $25.5 trillion at March 31, 2011 compared with $22.4 trillion at March 31, 2010 and $25.0 trillion at Dec. 31, 2010. Both increases primarily reflect higher market values and net new business. The

increase compared with March 31, 2010 also reflects the acquisitions of Global Investment Servicing (GIS) on July 1, 2010 and BHF Asset Servicing GmbH (BAS) on Aug. 2, 2010 (collectively, the Acquisitions). (See the Investment Services business on page 19).
Assets under management (AUM), excluding securities lending assets, totaled a record $1.23 trillion at March 31, 2011 compared with $1.11 trillion at March 31, 2010 and $1.17 trillion at Dec. 31, 2010. This represents an increase of 11% compared with the prior year and 5% sequentially. Both increases were primarily due to higher market values and net new business. (See the Investment management business on page 16).
Investment services fees totaled $1.7 billion in the first quarter of 2011 compared with $1.3 billion in the first quarter of 2010. The increase reflects the Acquisitions, new business and

higher market values. (See the Investment Services business on page 19).

Investment management and performance fees, totaled $764 million in the first quarter of 2011 compared with $686 million in the first quarter of 2010. The increase reflects higher market values and net new business. (See the Investment Management business beginning on page 16).

Foreign exchange and other trading revenue totaled $198 million in the first quarter of 2011 compared with $262 million in the first quarter of 2010. In the first quarter of 2011, foreign exchange revenue totaled $173 million, a decrease of 1% compared with the first quarter of 2010, as increased volumes were more than offset by declines in volatility. Other trading revenue was $25 million in the first quarter of 2011, a decrease of $62 million compared with the first quarter of 2010 driven by lower fixed income and derivatives trading revenue. (See Fee and other revenue beginning on page 7).

Investment income and other revenue totaled $81 million in the first quarter of 2011 compared with $145 million in the first quarter of 2010. The decrease primarily reflects a reduction in foreign currency translation revenue and lower lease residual gains. (See Fee and other revenue beginning on page 7).

Net interest revenue totaled $698 million in the first quarter of 2011 compared with $765 million in the first quarter of 2010. The net interest margin (FTE) for the first quarter of 2011 was 1.49% compared with 1.89% in the first quarter of 2010. Both of the decreases reflect lower spreads resulting from the continued impact of the low interest rate environment. (See Net interest revenue beginning on page 9).

There was no provision for credit losses in the first quarter of 2011 compared with a charge of $35 million in the first quarter of 2010. (See Asset quality and allowance for credit losses beginning on page 29).

Noninterest expense totaled $2.7 billion in the first quarter of 2011 compared with $2.4 billion in the first quarter of 2010. The increase, reflects the impact of the Acquisitions, higher expenses associated with our revenue mix, litigation, pension and healthcare expenses, and continued investment in our franchise. (See Noninterest expense beginning on page 11).

Unrealized net of tax gains on our total investment securities portfolio were $279 million at March 31, 2011 compared with $150 million at Dec. 31, 2010. The improvement in the valuation of the investment securities portfolio was driven by narrowing credit spreads on non-agency residential mortgage-backed securities (RMBS). (See Consolidated balance sheet review beginning on page 24).

Our Tier 1 capital ratio was 14.0% at March 31, 2011 compared with 13.4% at Dec. 31, 2010. The increase primarily reflects earnings retention. (See Capital beginning on page 38).

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Fee and other revenue

Fee and other revenue				**1Q11 vs.**	
(dollars in millions, unless otherwise noted)	**1Q11**	4Q10	1Q10	**1Q10**	**4Q10**
Investment services fees:					
Asset servicing	**$ 923**	$ 914	$ 637	**45%**	**1%**
Issuer services	**351**	409	333	**5**	**(14)**
Clearing services	**292**	278	230	**27**	**5**
Treasury services	**128**	129	131	**(2)**	**(1)**
Total investment services fees	**1,694**	1,730	1,331	**27**	**(2)**
Investment management and performance fees	**764**	800	686	**11**	**(5)**
Foreign exchange and other trading revenue	**198**	258	262	**(24)**	**(23)**
Distribution and servicing	**53**	55	48	**10**	**(4)**
Financing-related fees	**43**	48	50	**(14)**	**(10)**
Investment income	**67**	64	108	**(38)**	**5**
Other	**14**	16	37	**(62)**	**(13)**
Total fee revenue	**$ 2,833**	$ 2,971	$ 2,522	**12%**	**(5)%**
Net securities gains	**5**	1	7	**N/M**	**N/M**
Total fee and other revenue	**$ 2,838** *(a)*	$ 2,972 *(a)*	$ 2,529	**12%**	**(5)%**
Fee revenue as a percent of total revenue excluding net securities gains	**78%**	79%	75%		
Market value of AUM at period end *(in billions)*	**$ 1,229**	$ 1,172	$ 1,105	**11%**	**5%**
Market value of AUC and administration at period end *(in trillions)*	**$ 25.5**	$ 25.0	$ 22.4	**14%**	**2%**

(a) Total fee revenue from the Acquisitions was $261 million in the first quarter of 2011 and $246 million in the fourth quarter of 2010.
N/M Not meaningful.

Fee revenue

Fee revenue increased 12% year-over-year and decreased 5% (unannualized) sequentially. The year-over-year increase primarily reflects the impact of the Acquisitions, higher market values and net new business, partially offset by decreases in foreign exchange and other trading revenue, investment income and other fee revenue. The sequential decrease primarily reflects seasonally lower depositary receipts and performance fees, as well as lower foreign exchange volatility.

Investment services fees

Investment services fees were impacted by the following, compared with the first quarter of 2010 and fourth quarter of 2010:

Asset servicing fees Year-over-year and sequential results were positively impacted by higher market values, new business and asset inflows from existing clients. The year-over-year increase was primarily driven by the impact of the Acquisitions.
Issuer services fees The increase year-over-year resulted from higher depositary receipts revenue, reflecting higher corporate action and issuance and cancellation fees. The decrease
sequentially was driven by seasonally lower depositary receipts revenue.
Clearing services fees The year-over-year and sequential increases reflect strong growth in mutual fund assets and positions, increased daily average revenue trades (DARTs), higher market values and new business. The year-over-year increase was also driven by the impact of the GIS acquisition.
Treasury services fees The year-over-year and sequential decreases primarily resulted from lower global payment services revenue.

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

Investment management and performance fees

Investment management and performance fees totaled $764 million in the first quarter of 2011, an increase of 11% year-over-year and a decrease of 5% (unannualized) sequentially. Performance fees were $17 million in the first quarter of 2011 compared with $13 million in the first quarter of 2010 and $73 million in the fourth quarter of 2010. The sequential decrease in performance fees reflects seasonality. Excluding performance fees, investment management fees totaled $747 million, an increase of 11% compared with the prior year period and 3% (unannualized) sequentially. Both increases reflect higher market values and net new business.

Total AUM for the Investment Management business was $1.23 trillion at March 31, 2011 compared with $1.17 trillion at Dec. 31, 2010 and $1.11 trillion at March 31, 2010. The increases from both prior periods were primarily due to higher market values and net new business. The S&P 500 Index was 1326 at March 31, 2011 compared with 1258 at Dec. 31, 2010 (a 5% increase) and 1169 at March 31, 2010 (a 13% increase).

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

	Quarter ended		
(in millions)	**March 31, 2011**	Dec. 31, 2010	March 31, 2010
Foreign exchange	**$ 173**	$ 206	$ 175
Fixed income	**17**	39	80
Credit derivatives	**(1)**	(3)	(2)
Other	**9**	16	9
Total	**$ 198**	$ 258	$ 262

Foreign exchange and other trading revenue was $198 million in the first quarter of 2011, a decrease of 24% compared with the first quarter of 2010, and 23% (unannualized) compared with the fourth quarter of 2010. In the first quarter of 2011, foreign exchange revenue totaled $173 million, a decrease of 1% year-over-year and 16% (unannualized) sequentially, as increased volumes were more than offset by declines in volatility. Other trading revenue was $25 million in the first quarter of 2011, a decrease of $62 million compared with the first quarter of 2010 and $27 million compared with the fourth quarter of 2010. Both decreases were driven by lower fixed income and derivatives trading revenue. Foreign exchange and other trading revenue is primarily reported in the Investment Services business. Other trading revenue is also reported in the Other segment.

Distribution and servicing fees

Distribution and servicing fees earned from mutual funds are primarily based on average assets in the funds and the sales of funds that we manage or

administer and are primarily reported in the Investment Management business. These fees, which include 12b-1 fees, fluctuate with the overall level of net sales, the relative mix of sales between share classes and the funds market values.

Distribution and servicing fee revenue increased $5 million compared with the first quarter of 2010 and decreased $2 million compared with the fourth quarter of 2010. The year-over-year increase primarily reflects new business inflows. The sequential decrease primarily reflects lower redemptions. The impact of distribution and servicing fees on income in any one period can be more than offset by distribution and servicing expense paid to other financial intermediaries to cover their cost for distribution and servicing of mutual funds. Distribution and servicing expense is recorded as noninterest expense on the income statement.

Financing-related fees

Financing-related fees, which are primarily reported in the Other segment, include capital markets fees, loan commitment fees and credit-related fees. Financing-related fees decreased $7 million compared with the first quarter of 2010 and $5 million sequentially. Both decreases were primarily driven by lower credit related fees, primarily reflecting our strategy to reduce targeted risk exposure.

Investment income

Investment income

(in millions)	**1Q11**	4Q10	1Q10
Corporate/bank-owned life insurance	**$ 37**	$ 38	$ 36
Lease residual gains	**13**	2	52
Equity investment income	**5**	10	12
Private equity gains	**10**	10	5
Seed capital gains	**2**	4	3
Total investment income	**$ 67**	$ 64	$ 108

Investment income, which is primarily reported in the Other segment and Investment Management business, includes income from insurance contracts, lease residual gains and losses, gains and losses on seed capital investments and private equity investments, and equity investment income. The decrease, compared with the first quarter of 2010, primarily reflects lower lease residual gains. The increase, compared to the fourth quarter of 2010, primarily reflects higher lease residual gains partially offset by lower equity investment income.

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Other revenue

Other revenue *(in millions)*	**1Q11**	4Q10	1Q10
Expense reimbursements from joint ventures	**$ 9**	$ 9	$ 10
Asset-related gains	**14**	5	3
Other income (loss)	**(11)**	(2)	24
Economic value payments	**2**	4	-
Total other revenue	**$ 14**	$ 16	$ 37

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

Total other revenue decreased in the first quarter of 2011 compared with both the first quarter of 2010 and the fourth quarter of 2010 primarily due to lower foreign currency translation revenue partially offset

by a $13 million net gain recorded in the first quarter of 2011 related to loan sales and valuation changes on loans from Mellon United National Bank, our former national bank subsidiary located in Florida, (MUNB). For additional information on discontinued operations, see Note 4 of the Notes to Consolidated Financial Statements.

Net securities gains

Net securities gains totaled $5 million in the first quarter of 2011, compared with $7 million in the first quarter of 2010 and $1 million in the fourth quarter of 2010. In the first quarter of 2011, $228 million of non-agency RMBS were sold at a gain of $10 million partially offset by impairment charges of $5 million on European floating rate notes and Alt-A RMBS.

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

Net securities gains *(in millions)*	**1Q11**	4Q10	1Q10
Alt-A RMBS	**$ 5**	$ -	$ (7)
Prime RMBS	**9**	-	-
Subprime RMBS	**(6)**	(4)	-
European floating rate notes	**(3)**	-	-
Other	**-**	5	14
Net securities gains	**$ 5**	$ 1	$ 7

Net interest revenue

Net interest revenue				**1Q11 vs.**	
(dollars in millions)	**1Q11**	4Q10	1Q10	**1Q10**	**4Q10**
Net interest revenue (non-FTE)	**$ 698**	$ 720	$ 765	**(9)%**	**(3)%**
Tax equivalent adjustment	**4**	4	5	**N/M**	**N/M**

Net interest revenue (FTE) Non-GAAP	**$ 702**	$ 724	$ 770	**(9)%**	**(3)%**
Average interest-earning assets	**$ 190,185**	$ 187,597	$ 163,429	**16%**	**1%**
Net interest margin (FTE)	**1.49%**	1.54%	1.89%	**(40)bps**	**(5)bps**

N/M Not meaningful.

bps basis points.

Net interest revenue totaled $698 million in the first quarter of 2011 compared with $765 million in the first quarter of 2010 and $720 million in the fourth quarter of 2010. Both the year-over-year and sequential declines reflect lower spreads resulting from the continued impact of the low interest rate environment and lower discount accretion, partially offset by higher average assets. The sequential decline also reflects a lower day count. Net interest revenue in the first quarter of 2011 includes $10

million related to both timing differences on hedges and an interest payment on a deposit for a bankruptcy matter.

The net interest margin was 1.49% in the first quarter of 2011 compared with 1.89% in the first quarter of 2010 and 1.54% in the fourth quarter of 2010. The declines primarily reflect the factors mentioned above.

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Average balances and interest rates

Average balances and interest rates	Quarter ended					
	March 31, 2011		Dec. 31, 2010		March 31, 2010	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates	Average balance	Average rates
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign banks)	**$ 57,637**	**1.03%**	$ 59,660	0.96%	$ 55,800	1.03%
Interest-bearing deposits held at the Federal Reserve and other central banks	**20,373**	**0.32**	16,787	0.32	12,129	0.33
Federal funds sold and securities purchased under resale agreements	**4,514**	**0.50**	5,553	3.15	3,859	0.71
Margin loans	**6,984**	**1.48**	6,289	1.55	5,241	1.49
Non-margin loans:						
Domestic offices	**22,391**	**2.52**	21,780	2.55	19,510	3.12
Foreign offices	**9,191**	**1.44**	9,460	1.53	9,463	1.62
Total non-margin loans	**31,582**	**2.21**	31,240	2.24	28,973	2.63
Securities:						
U.S. government obligations	**12,849**	**1.61**	11,390	1.51	6,600	1.40
U.S. government agency obligations	**20,221**	**2.98**	21,406	2.95	19,429	3.58
State and political subdivisions	**557**	**6.37**	587	6.53	670	6.37
Other securities	**31,770**	**3.43**	31,987	3.55	28,653	4.20
Trading securities	**3,698**	**2.44**	2,698	3.02	2,075	2.49
Total securities	**69,095**	**2.93**	68,068	3.02	57,427	3.63
Total interest-earning assets	**190,185**	**1.85%**	187,597	1.95%	163,429	2.18%
Allowance for loan losses	**(494)**		(530)		(502)	
Cash and due from banks	**4,088**		4,224		3,514	
Other assets	**49,577**		50,220		45,346	
Assets of discontinued operations	**-**		223		898	
Assets of consolidated investment management funds	**14,342**		14,675		12,730	
Total assets	**$ 257,698**		$ 256,409		$ 225,415	
Liabilities						
Interest-bearing liabilities:						
Money market rate accounts	**$ 31,844**	**0.09%**	$ 30,149	0.10%	$ 21,741	0.09%
Savings	**1,600**	**0.16**	1,433	0.22	1,372	0.27
Certificates of deposit of $100,000 & over	**296**	**0.06**	285	0.08	648	0.25
Other time deposits	**5,396**	**0.35**	5,149	0.31	5,224	0.30
Foreign offices	**77,379**	**0.29**	74,760	0.26	72,049	0.16
Total interest-bearing deposits	**116,515**	**0.23**	111,776	0.22	101,034	0.16
Federal funds purchased and securities sold under repurchase agreements	**5,172**	**0.07**	7,256	2.13	3,697	0.07
Trading liabilities	**2,764**	**1.14**	1,704	1.06	1,178	1.07
Other borrowed funds	**1,821**	**2.69**	1,999	1.65	1,627	2.62
Payables to customers and broker-dealers	**6,701**	**0.10**	5,878	0.11	6,372	0.08
Long-term debt	**17,014**	**1.87**	16,624	1.87	16,808	1.50
Total interest-bearing liabilities	**149,987**	**0.45%**	145,237	0.53%	130,716	0.36%
Total noninterest-bearing deposits	**38,616**		39,625		33,330	
Other liabilities	**22,350**		24,740		18,420	
Liabilities of discontinued operations	**-**		223		898	
Liabilities and obligations of consolidated investment management funds	**13,114**		13,481		11,540	
Total liabilities	**224,067**		223,306		194,904	
Temporary equity:						
Redeemable noncontrolling interests	**76**		22		-	
Permanent equity:						
Total BNY Mellon shareholders equity	**32,827**		32,379		29,715	
Noncontrolling interest	**8**		8		26	
Noncontrolling interests of consolidated investment management funds	**720**		694		770	

Total permanent equity	**33,555**		33,081	30,511
Total liabilities, temporary equity and permanent equity	**$ 257,698**		$ 256,409	$ 225,415
Net interest margin Taxable equivalent basis		**1.49%**	1.54%	1.89%

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

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Noninterest expense

Noninterest expense				**1Q11 vs.**	
(dollars in millions)	**1Q11**	4Q10	1Q10	**1Q10**	**4Q10**
Staff:					
Compensation	**$ 876**	$ 871	$ 753	**16%**	**1%**
Incentives	**325**	348	284	**14**	**(7)**
Employee benefits	**223**	198	183	**22**	**13**
Total staff	**1,424**	1,417	1,220	**17**	**-**
Professional, legal and other purchased services	**283**	320	241	**17**	**(12)**
Net occupancy	**153**	158	137	**12**	**(3)**
Software	**122**	117	94	**30**	**4**
Distribution and servicing	**111**	104	89	**25**	**7**
Furniture and equipment	**84**	90	75	**12**	**(7)**
Sub-custodian	**68**	70	52	**31**	**(3)**
Business development	**56**	88	52	**8**	**(36)**
Other	**277**	260	186	**49**	**7**
Subtotal	**2,578** *(a)*	2,624 *(a)*	2,146	**20**	**(2)**
Amortization of intangible assets	**108**	115	97	**11**	**(6)**
Restructuring charges	**(6)**	21	7	**N/M**	**N/M**
M&I expenses	**17**	43	26	**(35)**	**(60)**
Special litigation reserves	**N/A**	N/A	164	**N/M**	**N/M**
Total noninterest expense	**$ 2,697**	$ 2,803	$ 2,440	**11%**	**(4)%**
Total staff expense as a percent of total revenue	**39%**	38%	36%		
Employees at period end	**48,400**	48,000	42,300	**14%**	**1%**

(a) Noninterest expense from the Acquisitions was $203 million in the first quarter of 2011 and $196 million in the fourth quarter of 2010.
N/A Not applicable.

N/M Not meaningful.

Total noninterest expense increased $257 million compared with the first quarter of 2010 and decreased $106 million compared with the fourth quarter of 2010. Excluding amortization of intangible assets, restructuring charges, merger and integration expenses (M&I) and special litigation reserves, noninterest expense increased $432 million year-over-year and decreased $46 million sequentially. The year-over-year increase reflects the impact of the Acquisitions, higher expenses associated with our revenue mix, $47 million of litigation expense in the first quarter of 2011, higher pension and healthcare expenses, and continued investment in our franchise. The sequential decrease reflects seasonality, as well as higher expenses in the fourth quarter of 2010 primarily related to the full-year impact of adjusting compensation to market levels and the write-off of equipment, partially offset by higher litigation and pension and healthcare expenses.

Staff expense

Given our mix of fee-based businesses, which are staffed with high quality professionals, staff expense comprised 55% of total noninterest expense in the first quarter of 2011, excluding amortization of intangible assets, restructuring charges and M&I expenses.

The increase in staff expense compared with the first quarter of 2010 primarily reflects the impact of the Acquisitions, higher pension and healthcare expenses and the impact of adjusting compensation to market levels in the fourth quarter of 2010. The increase in staff expense compared with the fourth quarter of 2010 primarily reflects higher pension and healthcare expenses, partially offset by the full-year impact of adjusting compensation to market levels in the fourth quarter of 2010.

Non-staff expense

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

Non-staff expense, excluding amortization of intangible assets, restructuring charges, M&I expenses and special litigation reserves, totaled $1,154 million in the first quarter of 2011 compared with $926 million in the first quarter of 2010 and

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$1,207 million in the fourth quarter of 2010. The increase compared with the first quarter of 2010 primarily reflects the impact of the Acquisitions, higher litigation expense and continued investment in our franchise. The decrease in non-staff expense compared with the fourth quarter of 2010 primarily reflects seasonally higher expenses in the fourth quarter of 2010 related to the write-off of equipment, partially offset by higher litigation expense in the first quarter of 2011.

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

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

In the first quarter of 2011, we incurred $17 million of M&I expenses primarily related to the integration of the Acquisitions.

Income taxes

The effective tax rate for the first quarter of 2011 was 29.3% compared with 29.1% on a continuing operations basis in the first quarter of 2010 and 27.3% on a continuing operations basis in the fourth quarter of 2010.

We expect the effective tax rate to be approximately 30% for the full year of 2011.

Review of businesses

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

Organization of our business

In the first quarter of 2011, BNY Mellon realigned its internal reporting structure and business presentation to focus on its two principal businesses, Investment Management and Investment Services. The realignment reflects management s current approach to assessing performance and decisions regarding resource allocations. Investment Management includes the

former Asset Management and Wealth Management businesses; Investment Services includes the former Asset Servicing, Issuer Services and Clearing Services businesses as well as the Cash Management business previously included in the Treasury Services business. The Other segment includes credit-related activities previously included in the Treasury Services business, the lease financing portfolio, corporate treasury activities, including our investment securities portfolio, our investment in BNY ConvergEx Group, business exits and corporate overhead. All prior periods presented in this Form 10-Q are presented accordingly.

Also in the first quarter of 2011, we revised the net interest revenue for our businesses to reflect a new approach which adjusts our transfer pricing methodology to better reflect the value of certain domestic deposits. All prior period business results have been restated to reflect this revision. This revision did not impact the consolidated results.

Business accounting principles

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

For additional information on the accounting principles of our businesses, the primary types of revenue by business and how our businesses are presented and analyzed, see Note 19 to the Notes to Consolidated Financial Statements. In addition, client deposits serve as the primary funding source for our investment securities portfolio and we typically allocate all interest revenue to the businesses generating the deposits. Accordingly, the higher yield related to the restructured investment securities portfolio has been included in the results of the businesses.

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

Information on our businesses is reported on a continuing operations basis for all periods in 2010.

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See Note 4 to the Notes to Consolidated Financial Statements for a discussion of discontinued operations.

The results of our businesses in the first quarter of 2011 reflect higher market values and the impact of new business that benefited both the Investment Management and Investment Services businesses. Year-over-year results in the Investment Services business were impacted by the Acquisitions, higher depositary receipts revenue and higher clearing revenue, partially offset by lower foreign exchange volatility. Sequentially, results in the Investment Services business reflect lower depositary receipts revenue, lower foreign exchange volatility and persistent weakness in the structured debt markets, partially offset by higher clearing revenue. Money market fee waivers also continue to suppress results in both the Investment Services and Investment Management businesses.

Net interest revenue continues to be impacted by low spreads resulting from the lower interest rate environment, partially offset by higher interest-earning assets.

Noninterest expense increased year-over-year reflecting the Acquisitions and new business. In the Investment Management business, expenses decreased sequentially reflecting lower incentive expense. Sequentially, expenses were flat in the Investment Services business, as lower incentives were offset by higher litigation expense.

Net securities gains and restructuring charges are recorded in the Other segment. In addition, M&I expenses are a corporate level item and are therefore recorded in the Other segment.

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

Market indices						**1Q11 vs**	
	1Q10	2Q10	3Q10	4Q10	**1Q11**	**1Q10**	**4Q10**
S&P 500 Index *(a)*	1169	1031	1141	1258	**1326**	**13%**	**5%**
S&P 500 Index daily average	1123	1135	1095	1204	**1302**	**16**	**8**
FTSE 100 Index *(a)*	5680	4917	5549	5900	**5909**	**4**	**-**
FTSE 100 Index daily average	5431	5361	5312	5760	**5945**	**9**	**3**
Barclay s Capital Aggregate Bond℠ Index *(a)*	300	299	329	323	**328**	**9**	**2**
MSCI EAFE® Index *(a)*	1584	1348	1561	1658	**1703**	**8**	**3**
NYSE and NASDAQ Share Volume *(in billions)*	246	299	233	219	**225**	**(9)**	**3**

(a) Period end.

The period end S&P 500 Index increased 5% sequentially and 13% year-over-year. The period end FTSE 100 Index was unchanged sequentially and increased 4% year-over-year. On a daily average basis, the S&P 500 Index increased 8% sequentially and 16% year-over-year while the FTSE 100 Index increased 3% sequentially and 9% year-over-year.

The changes in the value of market indices primarily impact fee revenue in Investment Management and to a lesser extent Investment Services.

At March 31, 2011, using the S&P 500 Index as a proxy for global equity markets, we estimate that a 100 point change in the value of the S&P 500 Index, sustained for one year, would impact fee revenue by approximately 1 to 2% and fully diluted earnings

per common share on a continuing operations basis by $0.06-$0.07. If the global equity markets over or under perform the S&P 500 Index, the impact to fee revenue and earnings per share could be different.

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

For the quarter ended March 31, 2011

(dollar amounts in millions)	Investment Management	Investment Services	Other	Consolidated
Fee and other revenue	**$ 870** *(a)*	**$ 1,950**	**$ 84**	**$ 2,904** *(a)*
Net interest revenue	**53**	**639**	**6**	**698**
Total revenue	**923**	**2,589**	**90**	**3,602**
Provision for credit losses	**-**	**-**	**-**	**-**
Noninterest expense	**685**	**1,816**	**196**	**2,697**
Income (loss) before taxes	**$ 238** *(a)*	**$ 773**	**$ (106)**	**$ 905** *(a)*
Pre-tax operating margin *(b)*	**26%**	**30%**	**N/M**	**25%**
Average assets	**$ 37,318**	**$ 178,718**	**$ 41,662**	**$ 257,698**
Excluding intangible amortization:				
Noninterest expense	**$ 630**	**$ 1,763**	**$ 196**	**$ 2,589**
Income before taxes	**293**	**826**	**(106)**	**1,013**
Pre-tax operating margin *(b)*	**32%**	**32%**	**N/M**	**28%**

(a) Total fee and other revenue and income before taxes for the first quarter of 2011 include $66 million of income from consolidated investment management funds, net of noncontrolling interests. See Supplemental information beginning on page 42.
(b) Income before taxes divided by total revenue.
N/M Not meaningful.

For the quarter ended Dec. 31, 2010

(dollar amounts in millions)	Investment Management	Investment Services	Other	Total continuing operations
Fee and other revenue	$ 899 *(a)*	$ 2,010	$ 108	$ 3,017 *(a)*
Net interest revenue	50	598	72	720
Total revenue	949	2,608	180	3,737
Provision for credit losses	2	-	(24)	(22)
Noninterest expense	728	1,812	263	2,803
Income (loss) before taxes	$ 219 *(a)*	$ 796	$ (59)	$ 956 *(a)*
Pre-tax operating margin *(b)*	23%	31%	N/M	26%
Average assets	$ 37,648	$ 174,815	$ 43,723	$ 256,186 *(c)*
Excluding intangible amortization:				
Noninterest expense	$ 667	$ 1,759	$ 262	$ 2,688
Income before taxes	280	849	(58)	1,071
Pre-tax operating margin *(b)*	29%	33%	N/M	29%

(a) Total fee and other revenue and income before taxes for the fourth quarter of 2010 include $45 million of income from consolidated investment management funds, net of noncontrolling interests. See Supplemental information beginning on page 42.
(b) Income before taxes divided by total revenue.
(c) Including average assets of discontinued operations of $223 million for the fourth quarter of 2010, consolidated average assets were $256,409 million.
N/M Not meaningful.

For the quarter ended Sept. 30, 2010	Investment Management	Investment Services	Other	Total continuing operations

(dollar amounts in millions)				
Fee and other revenue	$ 793 *(a)*	$ 1,865	$ 59	$ 2,717 *(a)*
Net interest revenue	50	589	79	718
Total revenue	843	2,454	138	3,435
Provision for credit losses	-	-	(22)	(22)
Noninterest expense	683	1,682	246	2,611
Income (loss) before taxes	$ 160 *(a)*	$ 772	$ (86)	$ 846 *(a)*
Pre-tax operating margin *(b)*	19%	31%	N/M	25%
Average assets	$ 36,197	$ 158,837	$ 45,044	$ 240,078 *(c)*
Excluding intangible amortization:				
Noninterest expense	$ 624	$ 1,630	$ 246	$ 2,500
Income before taxes	219	824	(86)	957
Pre-tax operating margin *(b)*	26%	34%	N/M	28%

(a) Total fee and other revenue and income before taxes for the third quarter of 2010 include $49 million of income from consolidated investment management funds, net of noncontrolling interests. See Supplemental information beginning on page 42.
(b) Income before taxes divided by total revenue.
(c) Including average assets of discontinued operations of $247 million for the third quarter of 2010, consolidated average assets were $240,325 million.
N/M Not meaningful.

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For the quarter ended June 30, 2010

(dollar amounts in millions)	Investment Management	Investment Services	Other	Total continuing operations
Fee and other revenue	$ 767 *(a)*	$ 1,714	$ 106	$ 2,587 *(a)*
Net interest revenue	53	608	61	722
Total revenue	820	2,322	167	3,309
Provision for credit losses	1	-	19	20
Noninterest expense	655	1,560	101	2,316
Income before taxes	$ 164 *(a)*	$ 762	$ 47	$ 973 *(a)*
Pre-tax operating margin *(b)*	20%	33%	28%	29%
Average assets	$ 33,944	$ 153,836	$ 40,801	$ 228,581 *(c)*
Excluding intangible amortization:				
Noninterest expense	$ 596	$ 1,521	$ 101	$ 2,218
Income before taxes	223	801	47	1,071
Pre-tax operating margin *(b)*	27%	34%	28%	32%

(a) *Total fee and other revenue and income before taxes for the second quarter of 2010 include $32 million of income from consolidated investment management funds, net of noncontrolling interests. See Supplemental information beginning on page 42.*
(b) *Income before taxes divided by total revenue.*
(c) *Including average assets of discontinued operations of $260 million for the second quarter of 2010, consolidated average assets were $228,841 million.*
N/M *Not meaningful.*

For the quarter ended March 31, 2010

(dollar amounts in millions)	Investment Management	Investment Services	Other	Total continuing operations
Fee and other revenue	$ 775 *(a)*	$ 1,590	$ 205	$ 2,570 *(a)*
Net interest revenue	52	653	60	765
Total revenue	827	2,243	265	3,335
Provision for credit losses	-	-	35	35
Noninterest expense	627	1,457	356	2,440
Income (loss) before taxes	$ 200 *(a)*	$ 786	$ (126)	$ 860 *(a)*
Pre-tax operating margin *(b)*	24%	35%	N/M	26%
Average assets	$ 33,805	$ 153,666	$ 37,046	$ 224,517 *(c)*
Excluding intangible amortization:				
Noninterest expense	$ 569	$ 1,419	$ 355	$ 2,343
Income before taxes	258	824	(125)	957
Pre-tax operating margin *(b)*	31%	37%	N/M	29%

(a) *Total fee and other revenue and income before taxes for the first quarter of 2010 include $41 million of income from consolidated investment management funds, net of noncontrolling interests. See Supplemental information beginning on page 42.*
(b) *Income before taxes divided by total revenue.*
(c) *Including average assets of discontinued operations of $898 million for the first quarter of 2010, consolidated average assets were $225,415 million.*
N/M *Not meaningful.*

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Investment Management business

(dollar amounts in millions, unless otherwise noted)	1Q10	2Q10	3Q10	4Q10	**1Q11**	**1Q11 vs. 1Q10**	**1Q11 vs. 4Q10**
Revenue:							
Investment management and performance fees:							
Mutual funds	$ 249	$ 254	$ 270	$ 293	**$ 283**	**14%**	**(3)%**
Institutional clients	265	262	264	283	**302**	**14**	**7**
Wealth management	174	170	172	174	**181**	**4**	**4**
Performance fees	13	19	16	75	**17**	**31**	**N/M**
Total investment management and performance fees	701	705	722	825	**783**	**12**	**(5)**
Distribution and servicing	47	49	53	52	**51**	**9**	**(2)**
Other *(a)*	27	13	18	22	**36**	**33**	**64**
Total fee and other revenue *(a)*	775	767	793	899	**870**	**12**	**(3)**
Net interest revenue	52	53	50	50	**53**	**2**	**6**
Total revenue	827	820	843	949	**923**	**12**	**(3)**
Provision for credit losses	-	1	-	2	**-**	**N/M**	**N/M**
Noninterest expense (ex. amortization of intangible assets)	569	596	624	667	**630**	**11**	**(6)**
Income before taxes (ex. amortization of intangible assets)	258	223	219	280	**293**	**14**	**5**
Amortization of intangible assets	58	59	59	61			