Bank of New York Mellon CORP
Form 10-Q
August 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 June 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 June 30, 2013
Common Stock, $0.01 par value	1,150,476,690

THE BANK OF NEW YORK MELLON CORPORATION

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

Consolidated Financial Highlights (unaudited)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended June 30, 2013	March 31, 2013	June 30, 2012	Year-to-date June 30, 2013	June 30, 2012
Results applicable to common shareholders of The Bank of New York Mellon Corporation:					
Net income (loss)	$833	$(266)	$466	$567	$1,085
Basic EPS	0.71	(0.23)	0.39	0.48	0.91
Diluted EPS (a)	0.71	(0.23)	0.39	0.48	0.90
Fee and other revenue	$3,187	$2,844	$2,826	$6,031	$5,664
Income from consolidated investment management funds	65	50	57	115	100
Net interest revenue	757	719	734	1,476	1,499
Total revenue	$4,009	$3,613	$3,617	$7,622	$7,263
Return on common equity (annualized) (b)	9.7%	N/M	5.5%	3.3%	6.4%
Non-GAAP (b)	10.5%	7.8%	8.9%	9.1%	8.9%
Return on tangible common equity (annualized) – Non-GAAP (b)	25.0%	N/M	15.7%	9.5%	18.3%
Non-GAAP adjusted (b)	25.2%	18.5%	22.4%	21.9%	22.7%
Return on average assets (annualized)	0.99%	N/M	0.61%	0.34%	0.72%
Fee revenue as a percentage of total revenue excluding net securities gains	79%	78%	78%	79%	78%
Annualized fee revenue per employee (based on average headcount) (in thousands)	$254	$229	$233	$242	$233
Percentage of non-U.S. total revenue (c)	36%	35%	37%	36%	37%
Pre-tax operating margin (b)	30%	22%	16%	26%	20%
Non-GAAP adjusted (b)	32%	26%	29%	29%	29%
Net interest margin (FTE)	1.15%	1.11%	1.25%	1.13%	1.28%
Assets under management at period end (in billions) (d)	$1,432	$1,429	$1,299	$1,432	$1,299
Assets under custody and/or administration at period end (in trillions) (e)	$26.2	$26.3	$25.2	$26.2	$25.2
Market value of securities on loan at period end (in billions) (f)	$255	$244	$267	$255	$267
Average common shares and equivalents outstanding (in thousands):					
Basic	1,152,545	1,158,819	1,181,350	1,155,667	1,187,649

Diluted	1,155,981		1,158,819		(a)	1,182,985		1,159,169		1,189,264	
Capital ratios:											
Estimated Basel III Tier 1 common equity ratio – Non-GAAP (b)(g)	9.3	%	9.4	%		8.7	%	9.3	%	8.7	%
Basel I Tier 1 common equity to risk-weighted assets ratio – Non-GAAP (b)	13.2	%	12.2	%	(h)	13.2	%	13.2	%	13.2	%
Basel I Tier 1 capital ratio	14.8	%	13.6	%	(h)	14.7	%	14.8	%	14.7	%
Basel I Total (Tier 1 plus Tier 2) capital ratio	15.8	%	14.7	%	(h)	16.4	%	15.8	%	16.4	%
Basel I leverage capital ratio	5.3	%	5.2	%		5.5	%	5.3	%	5.5	%
BNY Mellon shareholders’ equity to total assets ratio (b)	10.0	%	10.0	%		10.5	%	10.0	%	10.5	%
BNY Mellon common shareholders’ equity to total assets ratio (b)	9.5	%	9.7	%		10.3	%	9.5	%	10.3	%
BNY Mellon tangible common shareholders’ equity to tangible assets of operations ratio – Non-GAAP (b)	5.8	%	5.9	%		6.1	%	5.8	%	6.1	%

Consolidated Financial Highlights (unaudited) (continued)

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended June 30, 2013	March 31, 2013	June 30, 2012	Year-to-date June 30, 2013	June 30, 2012
Selected average balances:					
Interest-earning assets	$268,481	$265,754	$239,755	$267,124	$238,042
Assets of operations	$325,931	$322,161	$293,718	$324,055	$291,808
Total assets	$337,455	$333,664	$305,002	$335,569	$303,172
Interest-bearing deposits	$151,219	$147,728	$130,482	$149,484	$127,959
Noninterest-bearing deposits	$70,648	$70,337	$62,860	$70,493	$64,737
Preferred stock	$1,350	$1,068	$60	$1,210	$30
Total The Bank of New York Mellon Corporation common shareholders' equity	$34,467	$34,898	$34,123	$34,681	$33,920
Other information at period end:					
Cash dividends per common share	$0.15	$0.13	$0.13	$0.28	$0.26
Common dividend payout ratio (i)	21%	N/M	33%	58%	29%
Common dividend yield (annualized)	2.1%	1.9%	2.4%	2.0%	2.4%
Closing common stock price per common share	$28.05	$27.99	$21.95	$28.05	$21.95
Market capitalization	$32,271	$32,487	$25,929	$32,271	$25,929
Book value per common share – GAAP (b)	$29.83	$29.83	$28.81	$29.83	$28.81
Tangible book value per common share – Non-GAAP (b)	$12.41	$12.47	$11.47	$12.41	$11.47
Full-time employees	49,800	49,700	48,300	49,800	48,300
Common share outstanding (in thousands)	1,150,477	1,160,647	1,181,298	1,150,477	1,181,298

(a) Diluted earnings per share for the three months ended March 31, 2013 was calculated using average basic shares. Adding back the dilutive shares would result in anti-dilution.

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

(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 $1.1 trillion at June 30, 2013 and $1.2 trillion at both March 31, 2013 and June 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 June 30, 2013, the estimated Basel III Tier 1 common equity ratio is based on our preliminary interpretation of and expectations regarding the final rules released by the Board of Governors of the Federal Reserve System (the "Federal Reserve") on July 2, 2013 and is presented under the Standardized Approach. This ratio was 9.8% under the Advanced Approach. 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, except as otherwise noted. Both the final rules and the NPRs require the Tier 1 common equity ratio to be the lower of the Standardized Approach or Advanced Approach. At March 31, 2013, this ratio was 9.4% under the Standardized Approach compared with 9.7% under the Advanced Approach. For all periods prepared under the NPRs prior to March 31, 2013, this ratio was higher under the Standardized Approach, and therefore was presented under the Advanced Approach. For all periods prior to June 30, 2013, Basel III risk-weightings for certain repo-style transactions were calculated under the Standardized Approach using the simple value-at-risk ("VaR") method. At June 30, 2013, Basel III risk-weightings for these transactions were calculated under the Standardized Approach using the collateral haircut approach.

(h) In the first quarter of 2013, BNY Mellon was required to implement the Basel 2.5 - final market risk rule. Implementation of these rules resulted in an approximately 35-40 basis points decrease to the Basel I Tier 1 common equity to risk-weighted assets ratio, the Basel I Tier 1 capital ratio and the Basel I Total capital ratio.

(i) The common dividend payout ratio was 23% for the first six months of 2013 after adjusting for the charge related to the disallowance of certain foreign tax credits.

N/M – Not meaningful.

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, 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 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 June 30, 2013, BNY Mellon had \$26.2 trillion in assets under custody and/or administration, and \$1.4 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 second quarter 2013 and subsequent events

ConvergEx

In the second quarter of 2013, ConvergEx, an entity in which BNY Mellon has a minority interest, completed a divestiture of its software platform business. As a result of the divestiture and other events, we recognized an after-tax gain of \$109 million, or \$0.09 per diluted common share, on our investment in ConvergEx in the second quarter of 2013.

Sale of SourceNet Solutions

On May 31, 2013, BNY Mellon sold SourceNet Solutions, our accounts payable outsourcing support services provider that was part of our Investment Services business. The impact of the sale was not significant on net income.

Agreement to Sell Newton's Private Client Business

On Feb. 27, 2013, Newton Management Limited, together with Newton Investment Management Limited, an investment boutique of BNY Mellon, announced an agreement to sell Newton's private client business. The agreement covers 7% of

Newton's assets under management valued at signing at £3.6 billion. The transaction is anticipated to close in the third quarter of 2013, subject to regulatory approval. We expect this transaction to be immaterial to our results of operations.

New Risk-Based and Leverage Regulatory Capital Rules

In July 2013, the federal banking agencies finalized rules (the "Final Rules") revising the capital framework applicable to U.S. bank holding companies ("BHCs") and banks. The Final 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 Rules establish a graduated implementation schedule and will be principally phased-in by 2019. In general, the Final Rules largely adhere to the rules as initially proposed in June 2012 and as summarized in the Company's 2012 Annual Report. At June 30, 2013, our estimated Basel III Tier 1 common equity ratio (Non-GAAP), which was based on our preliminary interpretation of and expectations regarding the Final Rules, was 9.3%. Our estimated Basel III Tier 1 common equity ratio (Non-GAAP) was 9.4% at March 31, 2013 and 8.7% at Dec. 31, 2012 and was calculated using our interpretations of the Notices of Proposed Rulemaking ("NPRs") dated June 7, 2012 released by Board of Governors of the Federal Reserve System (the "Federal Reserve"), except as otherwise noted in our discussions on our Basel III capital ratios. For additional information on the Final Rules, see "Capital" and "Recent accounting and regulatory developments - Regulatory developments".

Supplementary Leverage Ratio Proposals

The Final Rules implement, among other things, for Advanced Approaches banking organizations, including the Company, a new Basel III-based supplementary leverage ratio of 3%, to become effective Jan. 1, 2018. 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. The proposed revisions would broaden the denominator's scope to expand exposure calculations for derivatives and related collateral, written credit derivatives (from the perspective of the organization serving as the seller of credit protection), and securities financing transactions, including indemnified agented securities lending transactions.

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. 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. The proposal indicated the agencies would also be considering the principles set forth in the Basel Committee's consultative document.

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

Highlights of second quarter 2013 results

In the second quarter of 2013, we reported net income applicable to common shareholders of BNY Mellon of $833 million, or $0.71 per diluted common share, including an after-tax gain of $109 million, or $0.09 per diluted common share, related to an equity investment. These results compare with net income applicable to common shareholders of $466 million, or $0.39 per diluted common share including a litigation charge of $212 million (after-tax) or $0.18 per common share, in the second quarter of 2012. In the first quarter of 2013, we recorded a net loss of $266 million, or $0.23 per diluted common share, which included a charge of $854 million, or $0.73 per common share, related to the U.S. Tax Court’s disallowance of certain foreign tax credits.

Highlights of second quarter 2013 include:

- Assets under custody and/or administration ("AUC/A") totaled $26.2 trillion at June 30, 2013 compared with $25.2 trillion at June 30, 2012 and $26.3 trillion at March 31, 2013. The increase of 4% year-over-year primarily reflects higher equity market values and net new business. (See the "Investment Services business" beginning on page 22.)
- Assets under management ("AUM") totaled a $1.43 trillion at June 30, 2013 compared with $1.30 trillion at June 30, 2012 and $1.43 trillion at March 31, 2013. The year-over-year increase of 10% primarily resulted from net new business and higher equity market values. (See the "Investment Management business" beginning on page 19).
- Investment services fees increased 4% in the second quarter of 2013 compared with the second quarter of 2012. The increase was driven by higher asset servicing, issuer services, and clearing services revenue, partially offset by lower securities lending revenue. (See the "Investment Services business" beginning on page 22).
- Investment management and performance fees increased 6% in the second quarter of 2013 compared with the second quarter of 2012. The increase was driven by higher market values and net new business, partially offset by the stronger U.S. dollar and higher money market fee waivers. (See the "Investment Management business" beginning on page 19).
- Foreign exchange and other trading revenue totaled $207 million in the second quarter of 2013 compared with $180 million in the second quarter of 2012. In the second quarter of 2013, foreign exchange revenue increased 14% year-over-year, driven by higher volatility and increased volumes. (See "Fee and other revenue" beginning on page 7).
- Investment income and other revenue totaled $269 million in the second quarter of 2013 compared with $48 million in the second quarter of 2012. The increase primarily resulted from a

gain related to an equity investment. (See "Fee and other revenue" beginning on page 7).

- Net interest revenue totaled $757 million in the second quarter of 2013 compared with $734 million in the second quarter of 2012. The increase is primarily driven by a change in the mix of interest-earning assets, lower funding costs, higher rates and higher average interest-earning assets driven by higher deposit levels. (See "Net interest revenue" beginning on page 11).
- The provision for credit losses was a credit of $19 million in both the second quarter of 2013 and the second quarter of 2012. (See "Asset quality and allowance for credit losses" beginning on page 35).
- Noninterest expense totaled $2.8 billion in the second quarter of 2013 compared with $3.0 billion the second quarter of 2012. The decrease primarily resulted from a decrease in litigation charges. (See "Noninterest expense" beginning on page 14).
- BNY Mellon recorded an income tax provision of $321 million (26.6% effective tax rate) in the second quarter of 2013. This compared with an income tax provision of $93 million (15.8% effective tax rate) in the second quarter of 2012, which included a reduction in the tax rate of approximately 9% related to a litigation charge. (See "Income taxes" on page 15).
- The net unrealized pre-tax gain on our total investment securities portfolio was $656 million at June 30, 2013 compared with $2.2 billion at March 31, 2013. The decrease primarily reflects an increase in long-term interest rates. (See "Investment securities" beginning on page 30).
- At June 30, 2013, our estimated Basel III Tier 1 common equity ratio (Non-GAAP) was 9.3% compared with 9.4% at March 31, 2013. (See "Capital" beginning on page 44).
- In the second quarter of 2013, we repurchased 11.9 million common shares in the open market, at an average price of $27.79 per share, for a total of $330 million.

Fee and other revenue

Fee and other revenue				2Q13 vs.		Year-to-date		YTD13 vs.
(dollars in millions, unless otherwise noted)	2Q13	1Q13	2Q12	2Q12	1Q13	2013	2012	YTD12
Investment services fees:								
Asset servicing (a)	$988	$969	$950	4 %	2 %	$1,957	$1,893	3 %
Issuer services	294	237	275	7	24	531	526	1
Clearing services	321	304	309	4	6	625	612	2
Treasury services	139	141	134	4	(1)	280	270	4
Total investment services fees	1,742	1,651	1,668	4	6	3,393	3,301	3
Investment management and performance fees	848	822	797	6	3	1,670	1,542	8
Foreign exchange and other trading revenue	207	161	180	15	29	368	371	(1)
Distribution and servicing	45	49	46	(2)	(8)	94	92	2
Financing-related fees	44	41	37	19	7	85	81	5
Investment and other income	269	72	48	N/M	N/M	341	187	N/M
Total fee revenue	3,155	2,796	2,776	14	13	5,951	5,574	7
Net securities gains	32	48	50	N/M	N/M	80	90	N/M
Total fee and other revenue - GAAP	$3,187	$						