IN THE SUPREME COURT OF THE STATE OF NEVADA

NATIONSTAR MORTGAGE, LLC; AND THE BANK OF NEW YORK MELLON F/K/A THE BANK OF NEW YORK AS TRUSTEE FOR THE HOLDERS OF THE CERTIFICATES, FIRST HORIZON MORTGAGE PASS-THROUGH CERTIFICATES SERIES PHAMS 2005-AA5, BY FIRST HORIZON HOME LOANS, A DIVISION OF FIRST TENNESSEE BANK NATIONAL MASTER SERVICER, IN ITS CAPACITY AS AGENT FOR THE TRUSTEE UNDER THE POOLING AND SERVICING AGREEMENT,

Appellants,

vs.

CATHERINE RODRIGUEZ,

Respondent.

Supreme Court Case No. 66761

Electronically Filed
May 14 2015 02:41 p.m.
Tracie K. Lindeman
Clerk of Supreme Court

District Court Case No. A685616

Appeal from the Eighth Judicial District Court of the State of Nevada, in and for the County of Clark, The Honorable Kathleen Delaney, District Judge District Court Case No. A-13-685616-J

APPELLANTS APPENDIX – VOLUME VII

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Table of Contents (Chronological)

Table of Contents (Alphabetical)

DATED: May 13, 2015

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BNY MELLON

2011 ANNUAL REPORT

Financial Highlights

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

(Dollar amounts in millions, except per common share amounts and unless otherwise noted)

Financial Results	2011	2010
Net income from continuing operations	$ 2,569	$ 2,647
Net loss from discontinued operations	—	(66)
Net income	2,569	2,581
Net (income) attributable to noncontrolling interests	(53)	(63)
Net income applicable to common shareholders of The Bank of New York Mellon Corporation	$ 2,516	$ 2,518
Earnings per common share — *diluted*		
Continuing operations	$ 2.03	$ 2.11
Discontinued operations	—	(0.05)
Net income applicable to common stock	$ 2.03	$ 2.05
Continuing Operations - Key Data		
Total revenue	$ 14,730	$ 13,875
Total expenses	11,112	10,170
Fee revenue as a percentage of total revenue excluding net securities gains (losses)	78%	78%
Percentage of non-U.S. total revenue [b]	37%	36%
Assets under management at year end *(in billions)*	$ 1,260	$ 1,172
Assets under custody and administration at year end *(in trillions)*	$ 25.8	$ 25.0
Balance Sheet		
Total assets	$ 325,266	$ 247,259
Total deposits	219,094	145,339
Total The Bank of New York Mellon Corporation common shareholders' equity	33,417	32,354
Capital Ratios at Dec. 31 [c]		
Estimated Basel III Tier 1 common equity ratio – Non-GAAP [d][e]	7.1%	N/A
BNY Mellon shareholders' equity to total assets ratio [e]	10.3	13.1%
Tangible BNY Mellon common shareholders' equity to tangible assets of operations ratio – Non-GAAP [e]	6.4	5.8
<u>Determined under Basel I guidelines:</u>		
Tier 1 common to risk-weighted assets ratio – Non-GAAP [e]	13.4	11.8
Tier 1 capital ratio	15.0	13.4
Total (Tier 1 plus Tier 2) capital ratio	17.0	16.3
Leverage capital ratio	5.2	5.8

(a) *Does not foot due to rounding.*

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

(c) *Results in 2010 include discontinued operations.*

(d) *Our estimated Basel III Tier 1 common equity ratio (Non-GAAP) reflects our current interpretation of the Basel III rules. Our estimated Basel III Tier 1 common equity ratio could change in the future as the U.S. regulatory agencies implement Basel III or if our businesses change.*

(e) *See Supplemental Information beginning on page 66 for a calculation of these ratios.*

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Dear Fellow Shareholders

2011 was a difficult year. Revenues were less than expected and expenses were too high as we dealt with a challenging environment. Still, we continued to develop and execute our plans to improve our operating margins, differentiate our products, and ensure we continue to contribute in meaningful ways to the smooth and efficient functioning of the global capital markets.

During 2011, we made significant progress on a number of fronts:

- achieved above-median revenue growth compared with our peers;
- continued to receive top rankings for client satisfaction and industry recognition for investment performance;
- further strengthened our balance sheet in terms of liquidity, asset quality and capital. At year end, our Basel I Tier 1 common equity ratio was 13.4 percent[1];
- achieved superior returns versus U.S. banking peers on our tangible and regulatory capital;
- implemented a series of efficiency initiatives to reduce our cost base and manage through the current environment, with clear evidence of progress on expenses in our fourth-quarter results;
- successfully completed the sale of our non-core Shareowner Services business; and
- repurchased approximately 35 million shares and raised the quarterly dividend by 44 percent.

But our stock price performance has been unacceptable. We know we must improve our shareholder return. And I am confident that we will, given the strength of our business model and our plans to enhance revenue growth and drive operational excellence.

Our Business Model

To appreciate our potential and comprehend the nature of our challenges, it's necessary to understand what we do.

- We are an investments company, with significant scale in virtually all of our businesses and more expertise in managing and servicing investments than any other firm. We help clients at every stage of the investment life cycle — whether they are looking to create, trade or hold assets, or need help managing, distributing or restructuring them. The breadth of our offerings creates significant opportunities for us to build broader and deeper client relationships.
- Our model is primarily fee-based, with little credit risk. A large percentage of our revenue — 78 percent — comes from recurring fees, which is above our peer group median. That has helped us maintain a strong, highly liquid balance sheet, with a solid capital position and strong credit ratings.
- Our model generates capital rapidly. It also generates significant levels of earnings. Much of these earnings, subject to regulatory approval, can be returned to you in the form of dividends and share repurchases.
- We benefit from the long-term trends of organic growth in financial assets and the globalization of the financial markets.

Our company has been designated by international regulators as one of the 29 Global Systemically Important Financial Institutions (G-SIFIs). This designation recognizes our fundamental importance to the health and operation of the global capital markets. The designation also carries with it an implicit responsibility to maintain the highest standards of excellence, and we take that responsibility seriously. In all that we undertake, we are committed to carefully considering the impact of our actions on our clients and the markets.

Let me discuss our 2011 performance:

Investment Services - Most of the key drivers of our Investment Services businesses showed significant improvement over 2010. Growth of assets under custody and administration outpaced our closest trust and custody peers, up 3 percent to $25.8 trillion. Average active clearing accounts grew 11 percent, average collateral management balances were up 13 percent and the number of sponsored depositary receipt programs increased 2 percent. Average total Investment Services deposits grew 32 percent, again outpacing peers. Total debt serviced, however, declined 2 percent, reflecting the lack of structured debt issuance and the slow recovery of the debt capital markets.

We continued to expand our capabilities in 2011, particularly in the areas of asset servicing, clearing, collateral management and alternative investment services. In a year in which we received industry recognition for our innovative use of technology, we introduced new tools to increase investment transparency and released iPad® apps to allow client access to information and reporting.

Investment Management - Our overall Investment Management businesses maintained focus on delivering strong investment performance and outstanding wealth management capabilities for our clients. Our long-term organic flows continued to grow, with assets under management (AUM) up 8 percent to a record level of $1.26 trillion, reflecting a 130 percent increase in net AUM flows in 2011, which significantly outpaced that of our peers.

We made progress in laying a foundation to optimize our multi-boutique model by building out our investment, distribution and infrastructure capabilities, with a particular focus on Asia Pacific. We also continued to develop distinctive investment capabilities, such as our liability-driven investment strategies. Wealth Management expanded its footprint, entering Chicago, the third-largest U.S. wealth market, through the acquisition of the established operations of one of the region's premier independent investment managers.

Enhancing Revenue Growth

To make us more resilient to market dynamics, we have a number of strategies in place to increase client assets under management, custody and administration.

- **Deepening client relationships** - There is tremendous room to increase the value we deliver to our clients and, thereby, earn more of their business. Over the past year, we have refined our global client management model to better align our resources with our clients' needs.
- **Increasing our capabilities** - In Investment Services, we are collaborating across our businesses to develop more sophisticated and innovative multi-product solutions for our clients. In Investment Management, we see opportunities to expand our global credit investment capabilities; advance our market position in absolute return, asset allocation and alternative investment solutions; and broaden and strengthen our global distribution. We also are looking to further expand our Wealth Management franchise, continuing a long tradition of helping our clients weather market cycles.
- **Building a global presence** - To maximize our returns in a prudent and focused way, we are continuing to build upon our global footprint in countries and regions with the strongest revenue potential for our company. In 2011, for example, our investment in Germany enabled us to achieve our goal of becoming the No. 1 custody provider in that country.

Driving Operational Excellence

Operational excellence refers to delivering the highest service quality, increasing our operating margins through the use of technology and taking risk out of our company and the financial system. Those goals are complementary and mutually reinforcing, not mutually exclusive. We are finding opportunities to improve the client experience while reducing the potential for errors and reducing our costs.

For instance, we are making investments in our technology infrastructure that will help improve ease of use for clients, allow us to introduce new products more quickly and lower technology costs. We are also utilizing cloud technology to distribute applications in a virtual environment, effectively eliminating proprietary hardware and software.

Through these and other operational excellence activities, we expect to realize roughly $650 million to $700 million in expense savings by 2015, with substantial benefits in the intervening years.

Deploying Our Capital

Our business model generated approximately $2.8 billion worth of capital in 2011. Our ability to rapidly generate capital is enabling us to invest in our businesses, strengthen our balance sheet and, subject to regulatory approval, return capital to our shareholders in the form of dividends and share buybacks. Acquisitions remain a lesser priority in the near term.

Corporate Social Responsibility

Over the last few years, we have adopted fairly ambitious corporate social responsibility goals related to supporting our communities, developing our people and promoting environmental sustainability. In a short time, we have accomplished many of these goals and continue to push ourselves to do more.

This year, we donated $33.6 million to our communities around the world through philanthropic grants, sponsorships, employee giving and company matching donations. The number of employee teams involved in volunteering and fundraising has more than tripled since the launch of our Community Partnership program three years ago, with employees contributing more than 140,000 hours. We call our strategic approach to helping people in need "Powering Potential." We have extended that program to help returning military personnel, providing support in the areas of critical basic needs, workforce skills and career development. We also have a special focus on helping at-risk youth. Our support for youth is producing significantly higher graduation rates and employment and reduced homelessness. This program was honored in 2011 with awards in Boston, London, New York and Pittsburgh. All of this good work will continue.

Looking Ahead

We are well aware of the headwinds we face. We have entered a period in which revenue growth will be more difficult to achieve than in, perhaps, any period over the past 20 years. Economies globally remain sluggish, with a general lack of confidence and uncertainty inhibiting growth. This is reflected in high levels of market volatility and continued deleveraging of major market participants. Interest rates remain persistently low, limiting our ability to earn net interest income from client deposits.

While net interest income and strong global capital markets are important drivers of our performance, they are not the only drivers. How well we service our clients, the strength of client relationships, and our ability to innovate and drive operational excellence will have a major impact on our performance. We are positioned to perform well in each of these areas. In 2012, we expect our net savings from operational excellence initiatives to range from $240 million to $260 million, toward our goal of achieving net savings of approximately $650 million to $700 million by 2015. These savings will help us achieve operating leverage, even in a slow-growth environment. And we expect our revenues to grow as we execute our strategies.

The financial services industry, in general, has faced a dramatic increase in legal and regulatory scrutiny, actions and costs, and our company is no exception. The foreign exchange litigation has received a substantial amount of attention. With our reputation and integrity being challenged, we have undertaken an aggressive outreach program to our clients, media, regulators and interested parties to ensure they know the facts. We have also been listening to our clients and developing new foreign exchange options to meet their evolving needs, including an innovative defined spread pricing option that is positioned to set a new standard. We realize we must innovate to stay competitive as a provider in this space, and we will.

Making Our Company Even Greater

I am honored to lead BNY Mellon. I have tremendous belief in the potential of our company and pride in its capacity to navigate through challenging times, operate with integrity and remain focused on our clients' success. My sole focus is to make this great company even greater for all of our constituents — clients, employees and you, our shareholders.

I also have considerable confidence in the 49,000 professionals who work as a unified global team, each contributing to the diversity of thought, ideas and talents that help our clients succeed. I thank them for all they do every day for our clients, company, colleagues and communities.

I also thank our board of directors for its wise counsel and support, and for entrusting the Executive Committee and me with leading this company forward. I offer my special thanks to John Surma, who will not stand for re-election to our board after eight years of service, for his significant contributions and service.

I strongly believe in our ability to deliver great investment management advice and investment services to our clients, as well as consistent earnings per share growth and attractive returns to you, our shareholders.

Gerald L. Hassell
Chairman, President and Chief Executive Officer

[1] For an explanation and reconciliation of this non-GAAP measure, see "Supplemental Information" on page 66 of this Annual Report.

FINANCIAL SECTION

THE BANK OF NEW YORK MELLON CORPORATION
2011 Annual Report
Table of Contents

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

Financial Summary

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	2011	2010	2009	2008	2007 *(a)*
Year ended Dec. 31					
Fee revenue	$ 11,498	$ 10,697	$ 10,108	$ 12,342	$ 9,254
Net securities gains (losses)	48	27	(5,369)	(1,628)	(201)
Income of consolidated investment management funds	200	226	-	-	-
Net interest revenue	2,984	2,925	2,915	2,859	2,245
Total revenue	14,730	13,875	7,654	13,573	11,298
Provision for credit losses	1	11	332	104	(11)
Noninterest expense	11,112	10,170	9,530	11,523	8,094
Income (loss) from continuing operations before income taxes	3,617	3,694	(2,208)	1,946	3,215
Provision (benefit) for income taxes	1,048	1,047	(1,395)	491	987
Net income (loss) from continuing operations	2,569	2,647	(813)	1,455	2,228
Net income (loss) from discontinued operations	-	(66)	(270)	14	10
Extraordinary (loss) on consolidation of commercial paper conduits, net of tax	-	-	-	(26)	(180)
Net income (loss)	2,569	2,581	(1,083)	1,443	2,058
Net (income) attributable to noncontrolling interests	(53)	(63)	(1)	(24)	(19)
Redemption charge and preferred dividends	-	-	(283)	(33)	-
Net income (loss) applicable to common shareholders of The Bank of New York Mellon Corporation	$ 2,516	$ 2,518	$ (1,367)	$ 1,386	$ 2,039
Earnings per diluted common share applicable to common shareholders of The Bank of New York Mellon Corporation:					
Net income (loss) from continuing operations	$ 2.03	$ 2.11	$ (0.93)	$ 1.21	$ 2.35
Net income (loss) from discontinued operations	-	(0.05)	(0.23)	0.01	0.01
Extraordinary (loss), net of tax	-	-	-	(0.02)	(0.19)
Net income (loss) applicable to common stock	$ 2.03	$ 2.05 *(b)*	$ (1.16) *(c)*	$ 1.20	$ 2.17
At Dec. 31					
Interest-earning assets	$259,231	$180,541	$161,537	$184,591	$144,883
Assets of operations	313,919	232,493	212,224	237,512	197,656
Total assets	325,266	247,259	212,224	237,512	197,656
Deposits	219,094	145,339	135,050	159,673	118,125
Long-term debt	19,933	16,517	17,234	15,865	16,873
Preferred (Series B) stock	-	-	-	2,786	-
Total The Bank of New York Mellon Corporation common shareholders' equity	33,417	32,354	28,977	25,264	29,403
At Dec. 31					
Assets under management *(in billions)*	$ 1,260	$ 1,172	$ 1,115	$ 928	$ 1,121
Assets under custody and administration *(in trillions)*	25.8	25.0	22.3	20.2	23.1
Cross-border assets *(in trillions)*	9.7	9.2	8.8	7.5	10.0
Market value of securities on loan *(in billions) (d)*	269	278	247	326	633

(a) Results for 2007 include six months of BNY Mellon and six months of legacy The Bank of New York Company, Inc.
(b) Does not foot due to rounding.
(c) Diluted earnings per common share for 2009 was calculated using average basic shares. Adding back the dilutive shares would be anti-dilutive.
(d) Represents the securities on loan managed by the Investment Services business.

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

Financial Summary (continued)

(dollar amounts in millions, except per common share amounts and unless otherwise noted)	2011	2010	2009	2008	2007 *(a)*
Net income basis:					
Return on common equity *(b)*	7.5%	8.1%	N/M	5.0%	11.0%
Return on tangible common equity *(b)*	22.6	25.6	N/M	20.7	29.3
Return on average assets *(b)*	0.86	1.06	N/M	0.67	1.49
Continuing operations basis:					
Return on common equity *(b)(c)*	7.5%	8.3%	N/M	5.0%	10.9%
Non-GAAP adjusted *(b)(c)*	8.6	9.5	9.2%	14.2	13.6
Return on tangible common equity – Non-GAAP *(b)(c)*	22.6	26.3	N/M	20.5	29.2
Non-GAAP adjusted *(b)(c)*	23.3	27.1	31.6	48.7	33.6
Pre-tax operating margin *(c)*	25	27	N/M	14	28
Non-GAAP adjusted *(c)*	28	30	31	39	36
Fee revenue as a percentage of total revenue excluding net securities gains (losses)	78	78	78	79	80
Fee revenue per employee (based on average headcount) *(in thousands)*	$ 237	$ 241	$ 241	$ 290	$ 291
Percentage of non-U.S. revenue *(d)*	37%	36%	53% *(e)*	33% *(f)*	32%
Net interest margin (on fully taxable equivalent basis)	1.36	1.70	1.82	1.89 *(f)*	2.05
Cash dividends per common share	$ 0.48	$ 0.36	$ 0.51	$ 0.96	$ 0.95
Common dividend payout ratio	24%	18%	N/M	80%	44%
Dividend yield	2.4%	1.2%	1.8%	3.4%	1.9%
Closing common stock price per common share	$ 19.91	$ 30.20	$ 27.97	$ 28.33	$ 48.76
Market capitalization *(in billions)*	24.1	37.5	33.8	32.5	55.9
Book value per common share – GAAP *(c)*	27.62	26.06	23.99	22.00	25.66
Tangible book value per common share – Non-GAAP *(c)*	10.57	8.91	7.90	5.18	8.00
Full-time employees	48,700	48,000	42,200	42,500	41,200
Year-end common shares outstanding *(in thousands)*	1,209,675	1,241,530	1,207,835	1,148,467	1,145,983
Average total equity to average total assets	11.5%	13.1%	13.4%	13.7%	13.6%
Capital ratios at Dec. 31 *(g)*					
Estimated Basel III Tier 1 common equity ratio–Non-GAAP *(c)(h)*	7.1%	N/A	N/A	N/A	N/A
Basel I Tier 1 common equity to risk-weighted assets ratio–Non-GAAP *(c)*	13.4	11.8	10.5	9.4	7.6
Basel I Tier 1 capital ratio	15.0	13.4	12.1	13.2	9.3
Basel I Total (Tier 1 plus Tier 2) capital ratio	17.0	16.3	16.0	16.9	13.2
Basel I leverage capital ratio	5.2	5.8	6.5	6.9	6.5
BNY Mellon shareholders' equity to total assets ratio *(c)*	10.3	13.1	13.7	10.6	14.9
Tangible common shareholders' equity to tangible assets of operations ratio – Non-GAAP *(c)*	6.4	5.8	5.2	3.8	5.2

(a) Results for 2007 include six months of BNY Mellon and six months of legacy The Bank of New York Company, Inc.
(b) Calculated before the extraordinary losses in 2008 and 2007.
(c) See "Supplemental Information" beginning on page 66 for a calculation of these ratios.
(d) Includes fee revenue, net interest revenue and income of consolidated investment management funds, net of net income attributable to noncontrolling interests.
(e) Excluding investment securities losses, the percentage of non-U.S. fee revenue was 32%.
(f) Excluding the SILO/LILO charge, the percentage of non-U.S. fee and net interest revenue was 32% and the net interest margin was 2.21%.
(g) Includes discontinued operations in 2010, 2009, 2008 and 2007.
(h) Our estimated Basel III Tier 1 common equity ratio (Non-GAAP) reflects our current interpretation of the Basel III rules. Our estimated Basel III Tier 1 common equity ratio could change in the future as the U.S. regulatory agencies implement Basel III or if our businesses change.

Results of Operations

General

In this Annual Report, references to "our," "we," "us," "BNY Mellon," the "Company" and similar terms for periods on or after July 1, 2007 refer to The Bank of New York Mellon Corporation and its consolidated subsidiaries, and references to "our," "we," "us," the "Company," and similar terms prior to July 1, 2007 refer to The Bank of New York Company, Inc. and its consolidated subsidiaries. The term "Parent" refers to The Bank of New York Mellon Corporation but not its subsidiaries.

BNY Mellon's actual results of future operations may differ from those estimated or anticipated in certain forward-looking statements contained herein for reasons which are discussed below and under the heading "Forward-looking Statements." When used in this Annual Report, words such as "estimate," "forecast," "project," "anticipate," "confident," "target," "expect," "intend," "continue," "seek," "believe," "plan," "goal," "could," "should," "may," "will," "strategy," "synergies," "opportunities," "trends," and words of similar meaning, signify forward-looking statements in addition to statements specifically identified as forward-looking statements.

Certain business terms used in this document are defined in the Glossary.

The following should be read in conjunction with the Consolidated Financial Statements included in this Annual Report.

How we reported results

All information for 2011 in this Annual Report is reported on a net income basis. All information for 2010 and 2009 in this Annual Report is reported on a continuing operations basis, unless otherwise noted. For a description of discontinued operations, see Note 4 in the Notes to Consolidated Financial Statements.

Throughout this Annual Report, certain measures, which are noted as "Non-GAAP 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 66 for a reconciliation of financial measures presented in accordance with GAAP to adjusted Non-GAAP financial measures.

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 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 former 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 equity investments in Wing Hang Bank and ConvergEx Group, business exits and corporate overhead. 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 were reclassified. The reclassifications did not affect the results of operations.

Merger with Mellon Financial

On July 1, 2007, The Bank of New York Company, Inc. and Mellon Financial Corporation ("Mellon Financial") merged into The Bank of New York Mellon Corporation (together with its consolidated subsidiaries, "BNY Mellon"), with BNY Mellon

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being the surviving entity (the "2007 Merger"). Results for 2007 reflect six months of BNY Mellon and six months of legacy The Bank of New York Company, Inc.

Overview

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE symbol: BK). BNY Mellon is a global financial services company focused on helping clients manage and service their financial assets, operating in 36 countries and serving more than 100 markets. BNY Mellon is a leading provider of financial services for institutions, corporations and high-net-worth individuals, offering superior investment management and investment services through a worldwide client-focused team. At Dec. 31, 2011, we had $25.8 trillion in assets under custody and administration and $1.26 trillion in assets under management, serviced $11.8 trillion in outstanding debt and processed global payments averaging $1.5 trillion 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 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 United States; successful integration of acquired businesses; competitive margins; and positive operating leverage. We have established Basel I Tier 1 capital as our principal capital measure and have established a targeted ratio of Basel I Tier 1 capital to risk-weighted assets of 10%. We expect to update our capital targets once new regulatory capital guidelines are finalized.

Key 2011 events

Sale of Shareowner Services

On Dec. 31, 2011, BNY Mellon sold its Shareowner Services business. The sales price of $550 million resulted in a pre-tax gain of $98 million. We recorded an immaterial after-tax gain primarily due to the write-off of non-tax deductible goodwill associated with the business. The transaction enhanced BNY Mellon's capital position, adding approximately 30 basis points to our estimated Basel III Tier 1 common equity ratio at Dec. 31, 2011.

Acquisition of Penson Financial Services

On Nov. 30, 2011, we acquired Penson Financial Services Australia Pty Ltd ("Penson"), a clearing firm located in Australia, in a $33 million share purchase transaction. Penson offers execution and clearing services and provides processing for local exchange-traded equities and exchange-traded options in Australia. The results of Penson are included in the Investment Services business.

Continuing global economic uncertainty

The global financial markets and economy remain affected by a variety of concerns, including questions about the creditworthiness of sovereign issuers within Europe. Sovereign or financial institution defaults, political uncertainties or credit downgrades could lead to disruptions in the money markets, changes in foreign exchange values, reductions in the attractiveness and value of European assets, and/or an increase in borrowing costs for consumers and companies in Europe.

During 2011, the continued economic uncertainty in the global markets contributed to a significant increase in our balance sheet. Client deposits increased $74 billion, which drove a $78 billion increase in total assets. In response to this continued uncertainty, we reduced exposure to higher risk countries and increased our exposure to central banks. Additionally, we continued to maintain a highly liquid balance sheet with a ratio of liquid funds to total assets of 42% at Dec. 31, 2011, while also reducing our exposure to large global financial institutions.

Change in executive management

Effective Aug. 31, 2011, Robert P. Kelly resigned as Chairman, Chief Executive Officer and Director. Also effective on Aug. 31, 2011, Gerald L. Hassell, BNY Mellon's President and a board member since 1998, was appointed Chairman and Chief Executive Officer of the Company.

Acquisition of Talon Asset Management

On July 1, 2011, BNY Mellon acquired the wealth management operations of Chicago-based Talon Asset

Management ("Talon"). Talon 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. The results of Talon are included in the Investment Management business.

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.

In 2011, we repurchased 34.8 million shares in the open market, at an average price of $24.00 per share for a total of $835 million. In 2012, we continued to repurchase shares under the 2011 capital plan. Through Feb. 27, 2012, we repurchased 17.3 million shares in the open market, at an average price of $21.53 per share for a total of $371 million.

Summary of financial results

We reported net income applicable to common shareholders of BNY Mellon of $2.5 billion, or $2.03 per diluted common share in 2011 compared with $2.5 billion, or $2.05 per diluted common share in 2010. In 2009, we reported a net loss applicable to common shareholders of BNY Mellon of $1.4 billion, or $1.16 per diluted common share. In 2010, net income applicable to common shareholders on a continuing operations basis was $2.6 billion, or $2.11 per diluted common share. In 2009, we incurred a net loss applicable to common shareholders on a continuing operations basis of $1.1 billion, or $0.93 per diluted common share.

Highlights of 2011 results

- Assets under custody and administration ("AUC") totaled $25.8 trillion at Dec. 31, 2011 compared with $25.0 trillion at Dec. 31, 2010. The increase primarily reflects net new business. (See the "Investment Services business" beginning on page 21).
- Assets under management ("AUM"), excluding securities lending assets, totaled $1.26 trillion at Dec. 31, 2011 compared with $1.17 trillion at Dec. 31, 2010. The increase was primarily driven by net new business. (See the "Investment Management business" beginning on page 18).
- Investment services fees totaled $6.8 billion in 2011 compared with $6.1 billion in 2010. The increase primarily resulted from the full year impact of the acquisitions of Global Investment Servicing ("GIS") on July 1, 2010 and BHF Asset Servicing GmbH ("BAS") on Aug. 2, 2010 (collectively, "the Acquisitions"), and net new business, partially offset by higher money market fee waivers. (See the "Investment Services business" beginning on page 21).
- Investment management and performance fees totaled $3.0 billion in 2011 compared with $2.9 billion in 2010. The increase was driven by net new business and higher average equity markets, largely offset by higher money market fee waivers. (See the "Investment Management business" beginning on page 18).
- Foreign exchange and other trading revenue totaled $848 million in 2011 compared with $886 million in 2010. In 2011, foreign exchange revenue totaled $761 million, a decrease of 3% compared with 2010, driven by lower volatility, partially offset by higher volumes. Other trading revenue was $87 million 2011 compared with $99 million in 2010. The decrease was primarily driven by lower fixed income trading revenue. (See "Fee and other revenue" beginning on page 8).
- Investment income and other revenue totaled $455 million in 2011 compared with $467 million in 2010. The decrease primarily resulted from lower foreign currency translation, the write-down of an equity investment, lower lease residual gains and lower private equity investment revenue, primarily offset by the gain on the sale of Shareowner Services and gains related to loans held-for-sale retained from a previously divested bank subsidiary. (See "Fee and other revenue" beginning on page 8).
- Net interest revenue totaled $3.0 billion in 2011 compared with $2.9 billion in 2010 and the net interest margin (FTE) was 1.36% in 2011 compared with 1.70% in 2010. The trends of net interest revenue and net interest margin (FTE) primarily reflect growth in client deposits, which were placed with central banks, purchases of high quality securities and an increased level of secured loans, partially offset by lower spreads resulting from the continued impact of the lower global interest rate environment. (See "Net interest revenue" beginning on page 11).

- The provision for credit losses was $1 million in 2011 compared with $11 million in 2010. The lower provision in 2011 primarily resulted from an improvement in the loan portfolio and a decline in criticized assets. (See "Asset quality and allowance for credit losses" beginning on page 42).
- Noninterest expense totaled $11.1 billion in 2011 compared with $10.2 billion in 2010. The increase primarily reflects the full-year impact of the Acquisitions, higher staff expense, volume-related expenses, and software expense, as well as higher professional, legal and other purchased services. Noninterest expense in 2011 also includes restructuring charges of $89 million. (See "Noninterest expense" beginning on page 14).
- BNY Mellon recorded an income tax provision of $1.0 billion (29.0% effective tax rate) in 2011 compared with an income tax provision, on a continuing operations basis, of $1.0 billion (28.3% effective tax rate) in 2010. (See "Income taxes" on page 15).
- Unrealized net of tax gains on our total investment securities portfolio were $420 million at Dec. 31, 2011 compared with $150 million at Dec. 31, 2010. The improvement in the valuation of the investment securities portfolio was driven by improved valuations of agency RMBS and U.S. Treasury securities, partially offset by declines in valuations of certain non-agency residential mortgage-backed securities. (See "Investment securities" beginning on page 36).
- At Dec. 31, 2011, our estimated Basel III Tier 1 common equity ratio was 7.1% , an improvement of more than 100 basis points from March 31, 2011. The improvement was driven by earnings retention, the reduction of goodwill and intangible assets related to the sale of Shareowner Services and paydowns on sub-investment grade securities, partially offset by share repurchases. (See "Capital" beginning on page 53).
- We generated $2.8 billion of Basel I Tier 1 common equity in 2011, primarily driven by earnings. Our Basel I Tier 1 capital ratio was 15.0% at Dec. 31, 2011 compared with 13.4% at Dec. 31, 2010. (See "Capital" beginning on page 53).
- In 2011, we repurchased 34.8 million common shares in the open market, at an average price of $24.00 per share, for a total of $835 million.

Results of 2010

In 2010, we reported net income applicable to common shareholders, including discontinued operations, of $2.5 billion, or $2.05 per diluted common share, or on a continuing operations basis, net income of $2.6 billion, or $2.11 per diluted common share. These results were primarily driven by:

- Investment services fee revenue totaled $6.1 billion in 2010 reflecting the Acquisitions, higher market values and net new business.
- Investment management and performance fees totaled $2.9 billion in 2010 reflecting higher market values globally, the full year impact of the acquisition of Insight Investment Management Limited ("Insight") and new business.
- Foreign exchange and other trading revenue totaled $886 million in 2010 driven by lower fixed income and derivatives trading revenue and lower foreign exchange revenue.
- Net interest revenue totaled $2.9 billion in 2010 as a higher yield on the restructured investment securities portfolio and higher interest-earning assets were offset by lower spreads.
- Noninterest expense totaled $10.2 billion in 2010 primarily driven by the impact of the Acquisitions, the full-year impact of the Insight acquisition and higher compensation expense.

Results for 2009

In 2009, we reported a net loss of $1.4 billion, or $1.16 per diluted common share, or on a continuing operations basis, a net loss of $1.1 billion, or $0.93 per diluted common share. These results were primarily driven by:

- Investment securities (pre-tax) net losses of $5.4 billion in 2009 reflecting the restructuring of the investment securities portfolio.
- A provision for credit losses of $332 million in 2009, reflecting a higher number of downgrades and deterioration in certain industry sectors.
- Merger and integration ("M&I") expenses of $233 million (pre-tax).
- An after-tax redemption charge of $196.5 million related to the repurchase of the Series B preferred stock issued to the U.S. Treasury as part of the Troubled Asset Relief Program ("TARP") Capital Purchase Program and $86.5 million for dividends/accretion on the Series B preferred stock.

Results for 2009, compared with 2008, also included lower securities servicing revenue, lower investment management and performance fees and lower foreign exchange and other trading revenue.

Fee and other revenue

Fee and other revenue *(dollars in millions unless otherwise noted)*	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Investment services fees:					
Asset servicing *(a)*	$ 3,697	$ 3,076	$ 2,573	20%	20%
Issuer services	1,445	1,460	1,463	(1)	-
Clearing services	1,159	1,005	962	15	4
Treasury services	535	530	519	1	2
Total investment services fees	6,836	6,071	5,517	13	10
Investment management and performance fees	3,002	2,868	2,677	5	7
Foreign exchange and other trading revenue	848	886	1,036	(4)	(14)
Distribution and servicing	187	210	326	(11)	(36)
Financing-related fees	170	195	215	(13)	(9)
Investment income	258	308	226	(16)	36
Other	197	159	111	24	43
Total fee revenue	11,498	10,697	10,108	7	6
Net securities gains (losses)	48	27	(5,369)	78	N/M
Total fee and other revenue	$11,546	$10,724	$ 4,739	8%	126%
Fee revenue as a percentage of total revenue excluding net securities gains (losses)	78%	78%	78%		
Market value of AUM at period end *(in billions)*	$ 1,260	$ 1,172	$ 1,115	8%	5%
Market value of AUC and administration at period end *(in trillions)*	$ 25.8	$ 25.0	$ 22.3	3%	12%

(a) Asset servicing fees include securities lending revenue of $183 million in 2011, $150 million in 2010 and $259 million in 2009.

Fee revenue

Fee revenue increased 7% in 2011 compared with 2010, primarily reflecting the full year impact of the Acquisitions, higher average market values and higher net new business, partially offset by higher money market fee waivers and lower trading volumes.

Investment services fees

Investment services fees were impacted by the following compared with 2010:

- Asset servicing fees increased 20%, primarily driven by the full-year impact of the Acquisitions, higher market values, net new business and higher securities lending revenue due to wider spreads.
- Issuer services fees decreased 1% as higher Depositary Receipts revenue driven by higher corporate action fees was more than offset by lower Corporate Trust fee revenue, reflecting continued weakness in the structured debt markets and lower money market-related distribution fees, and lower Shareowner Services revenue, reflecting lower corporate action fees.
- Clearing services fees increased 15%, primarily driven by the full-year impact of the GIS acquisition, and new business, partially offset by lower trading volumes and higher money market fee waivers.
- Treasury services fees increased 1% compared with 2010, reflecting the full-year impact of the GIS acquisition, primarily offset by lower funds transfer, cash management and liquidity 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 $3.0 billion in 2011, an increase of 5% compared with 2010. The increase reflects higher average market values and net new business, partially offset by higher money market fee waivers and lower performance fees. Performance fees were $93 million in 2011 and $121 million in 2010.

Total AUM for the Investment Management business was $1.26 trillion at Dec. 31, 2011, compared with $1.17 trillion at Dec. 31, 2010. The increase was

RFJN_EX 25_ 0000014

primarily due to net new business and improved market values throughout 2011. Long-term inflows in 2011 were $83 billion and benefited from strength in fixed income and equity-indexed products.

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 (in millions)	2011	2010	2009
Foreign exchange	$761	$787	$ 850
Fixed income	65	80	242
Credit derivatives *(a)*	(3)	(7)	(84)
Other	25	26	28
Total	$848	$886	$1,036

(a) Used as economic hedges of loans.

Foreign exchange and other trading revenue decreased $38 million, or 4%, from $886 million in 2010. In 2011, foreign exchange revenue totaled $761 million, a decrease of 3% compared with 2010, driven by lower volatility and spreads, partially offset by higher volumes. Foreign exchange revenue continues to be impacted by increasing competitive pressures. Other trading revenue totaled $87 million in 2011, a decrease of 12% compared with 2010, largely due to lower fixed income trading revenue. Foreign exchange revenue is primarily reported in the Investment Services business. 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 is 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* 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. 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 our estimation of the current market rate for a particular currency or based on an agreed 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. For the year ended Dec. 31, 2011, our total revenue for all types of foreign exchange trading transactions was $761 million, which is approximately 5% of our total revenue. Approximately 40% of our foreign exchange revenue resulted from foreign exchange transactions undertaken through our standing instruction program.

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, the funds' market values and money market fee waivers.

The $23 million decrease in distribution and servicing fee revenue in 2011 compared with 2010 primarily reflects increased money market fee waivers as well as equity market changes. The impact of distribution and servicing fees on income in any one period is partially offset by distribution and servicing expense paid to other financial intermediaries to cover their costs 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 $25 million from 2010 primarily as a result of lower capital markets and credit-related fees, primarily reflecting our strategy to reduce targeted risk exposure.

Investment income

Investment income *(in millions)*	2011	2010	2009
Corporate/bank-owned life insurance	**$154**	$150	$151
Lease residual gains	**42**	69	90
Equity investment income (loss)	**44**	51	(28)
Private equity gains (losses)	**18**	29	(18)
Seed capital gains	**-**	9	31
Total investment income	**$258**	$308	$226

Investment income, which is primarily reported in the Other segment and Investment Management business, includes income from insurance contracts, lease residual gains and losses, equity investment income (loss), private equity investments and gains and losses on seed capital investments. The decrease, compared with 2010, primarily reflects lower lease residual, private equity and seed capital gains.

Other revenue

Other revenue *(in millions)*	2011	2010	2009
Asset-related gains	**$181**	$ 22	$ 76
Expense reimbursements from joint ventures	**38**	37	31
Economic value payments	**4**	7	-
Other income (loss)	**(26)**	93	4
Total other revenue	**$197**	$159	$111

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 remeasurement, other investments and various miscellaneous revenues.

Total other revenue increased $38 million compared with 2010, primarily reflecting the gain on the sale of Shareowner Services and asset-related gains on loans held-for-sale retained from a previously divested bank subsidiary, partially offset by net losses on foreign currency remeasurement.

Net securities gains (losses)

Net securities gains totaled $48 million in 2011 compared with $27 million in 2010.

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

Net securities gains (losses) *(in millions)*	2011	2010	2009
U.S. Treasury	**$ 77**	$ 15	$ -
Agency RMBS	**8**	15	-
Alt-A RMBS	**(36)**	(13)	(3,113)
Prime RMBS	**(1)**	-	(1,008)
Subprime RMBS	**(21)**	(4)	(322)
European floating rate notes	**(39)**	(3)	(269)
Sovereign debt	**36**	-	-
Home equity lines of credit	**-**	-	(205)
Commercial MBS	**-**	-	(89)
Grantor Trust	**-**	-	(39)
Credit cards	**-**	-	(26)
ABS CDOs	**-**	-	(23)
Other	**24**	17	(275)
Total net securities gains (losses)	**$ 48**	$ 27	$(5,369)

RFJN_EX 25_ 0000016

2010 compared with 2009

Fee revenue increased 6% in 2010 compared with 2009, primarily reflecting the impact of the Acquisitions, the full-year impact of the Insight acquisition, improved market values and new business, partially offset by lower foreign exchange and other trading revenue, lower distribution and servicing fees and lower securities lending revenue.

Net securities gains totaled $27 million in 2010 compared with losses of $5.4 billion in 2009. The loss in 2009 primarily resulted from a charge related to restructuring the investment securities portfolio.

Fee and other revenue was also impacted by the following:

- Investment services fees increased reflecting the impact of the Acquisitions, higher market values, net new business and higher Depositary Receipts revenue resulting from higher issuance, corporate action and service fees. This increase was partially offset by lower Corporate Trust fee revenue, reflecting continued weakness in the structured debt markets and lower money market related distribution fees, lower Shareowner Services revenue, reflecting lower corporate action fees, and lower securities lending revenue resulting from narrower spreads and lower loan balances.
- Investment management and performance fees increased reflecting improved market values, the Insight acquisition and the impact of net new business.
- Foreign exchange and other trading revenue decreased largely due to lower fixed income and derivatives trading revenue.
- Investment income increased reflecting higher equity investment revenue and higher private equity gains, partially offset by lower lease residual and seed capital gains.
- Total other revenue increased primarily reflecting higher foreign currency remeasurements, partially offset by lower asset-related gains.

Net interest revenue

Net interest revenue (dollars in millions)	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Net interest revenue (non-FTE)	$ 2,984	$ 2,925	$ 2,915	2%	-%
Tax equivalent adjustment	27	19	18	N/M	N/M
Net interest revenue (FTE) – Non-GAAP	3,011	2,944	2,933	2%	-%
Average interest-earning assets	$222,233	$172,792	$160,955	29%	7%
Net interest margin (FTE)	1.36%	1.70%	1.82%	(34)bps	(12)bps

Net interest revenue totaled $3.0 billion in 2011, a 2% increase compared with 2010. The net interest margin (FTE) was 1.36% in 2011 compared with 1.70% in 2010. The trends of net interest revenue and net interest margin (FTE) primarily reflect growth in client deposits, which were placed with central banks, purchases of high quality securities and an increased level of secured loans, partially offset by lower spreads resulting from the continued impact of the lower global interest rate environment.

Average interest-earning assets were $222 billion in 2011, compared with $173 billion in 2010. The increase in 2011 compared with 2010 primarily occurred in the second half of 2011 and was driven by higher client deposits as a function of the European debt crisis and continued economic uncertainty in the global markets. Average total securities increased to $74 billion in 2011, up from $61 billion in 2010, reflecting our strategy to invest in high-quality, government-guaranteed securities, and to a lesser degree, state and political subdivisions and asset-backed collateralized loan obligations ("CLOs"). Average interest-bearing deposits with the Federal Reserve and other central banks increased to $47 billion, up from $14 billion in 2010, reflecting higher client deposits.

2010 compared with 2009

Net interest revenue totaled $2.9 billion in 2010, essentially unchanged compared with 2009. Net interest revenue in 2010 reflected a higher yield on the restructured investment securities portfolio, net of lost interest on the securities sold and higher average interest-earning assets, primarily offset by narrower spreads.

The net interest margin (FTE) was 1.70% in 2010 compared with 1.82% in 2009. The lower net interest margin (FTE) in 2010 was driven by lower spreads and higher interest-earning assets in a lower-rate environment, which more than offset the higher yield on the restructured investment securities portfolio.

Average balances and interest rates *(dollar amounts in millions, presented on an FTE basis)*	2011 Average balance	 Interest	 Average rates
Assets			
Interest-earning assets:			
Interest-bearing deposits with banks (primarily foreign banks)	$ 55,218	$ 543	0.99%
Interest-bearing deposits held at the Federal Reserve and other central banks	47,104	148	0.31
Federal funds sold and securities purchased under resale agreements	4,809	28	0.58
Margin loans	9,576	129	1.34
Non-margin loans:			
Domestic offices:			
Consumer	5,666	217	3.83
Commercial	15,915	316	1.99
Foreign offices	9,762	148	1.51
Total non-margin loans	31,343	681 *(a)*	2.17
Securities:			
U.S. government obligations	15,003	234	1.56
U.S. government agency obligations	21,684	625	2.88
State and political subdivisions – tax-exempt	1,394	59	4.25
Other securities:			
Domestic offices	15,756	680	4.32
Foreign offices	17,457	414	2.37
Total other securities	33,213	1,094	3.30
Trading securities:			
Domestic offices	2,856	74	2.61
Foreign offices	33	-	0.95
Total trading securities	2,889	74	2.59
Total securities	74,183	2,086	2.82
Total interest-earning assets	$222,233	$ 3,615 *(b)*	1.63%
Allowance for loan losses	(444)		
Cash and due from banks	4,579		
Other assets	51,398		
Assets of consolidated investment management funds	13,379		
Total assets	$291,145		
Liabilities			
Interest-bearing liabilities:			
Interest-bearing deposits:			
Domestic offices:			
Money market rate accounts	$ 4,659	$ 16	0.34%
Savings	1,525	2	0.16
Certificates of deposits of $100,000 & over	364	-	0.05
Other time deposits	34,396	29	0.08
Total domestic	40,944	47	0.11
Foreign offices:			
Banks	6,910	58	0.84
Government and official institutions	2,031	1	0.05
Other	74,810	135	0.18
Total foreign	83,751	194	0.23
Total interest-bearing deposits	124,695	241	0.19
Federal funds purchased and securities sold under repurchase agreements	8,572	2	0.02
Trading liabilities	1,852	32	1.76
Other borrowed funds:			
Domestic offices	1,124	16	1.41
Foreign offices	906	5	0.60
Total other borrowed funds	2,030	21	1.05
Payables to customers and broker-dealers	7,319	7	0.09
Long-term debt	18,057	301	1.66
Total interest-bearing liabilities	$162,525	$ 604	0.37%
Total noninterest-bearing deposits	57,984		
Other liabilities	24,244		
Liabilities and obligations of consolidated investment management funds	12,073		
Total liabilities	256,826		
Equity			
Noncontrolling interests	800		
The Bank of New York Mellon Corporation shareholders' equity	33,519		
Total liabilities, temporary equity and permanent equity	$291,145		
Net interest margin			1.36%
Percentage of assets attributable to foreign offices *(c)*	36%		
Percentage of liabilities attributable to foreign offices	33		

(a) Includes fees of $39 million in 2011. Non-accrual loans are included in the average loan balance; the associated income, recognized on the cash basis, is included in interest.
(b) The tax equivalent adjustment was $27 million in 2011, and is based on the applicable tax rate (35%).
(c) Includes the Cayman Islands branch office.

RFJN_EX 25_ 0000018

Average balances and interest rates (continued)	2010			2009		
(dollar amounts in millions, presented on an FTE basis)	Average balance	Interest	Average rates	Average balance	Interest	Average rates
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign banks)	$ 56,679	$ 491	0.87%	$ 55,797	$ 684	1.22%
Interest-bearing deposits held at the Federal Reserve and other central banks	14,253	49	0.34	11,938	45	0.36
Other short-term investments – U.S. Government-backed commercial paper	-	-	-	317	9	2.95
Federal funds sold and securities purchased under resale agreements	4,660	64	1.37	3,238	31	0.97
Margin loans	5,900	88	1.50	4,340	69	1.59
Non-margin loans:						
Domestic offices:						
Consumer	5,485	231	4.21	5,420	262	4.83
Commercial	15,286	356	2.33	15,056	362	2.41
Foreign offices	9,633	151	1.57	11,608	250	2.15
Total non-margin loans	30,404	738 *(a)*	2.43	32,084	874 *(a)*	2.72
Securities:						
U.S. Government obligations	7,857	119	1.50	3,218	50	1.54
U.S. Government agency obligations	20,140	674	3.34	16,019	592	3.70
State and political subdivisions – tax exempt	627	41	6.48	680	47	6.92
Other securities:						
Domestic offices	14,683	981	6.68	20,419	828	4.05
Foreign offices	14,906	173	1.16	10,912	248	2.28
Total other securities	29,589	1,154	3.90	31,331	1,076	3.43
Trading securities						
Domestic offices	2,568	71	2.79	1,934	50	2.57
Foreign offices	115	-	0.26	59	1	1.40
Total trading securities	2,683	71	2.68	1,993	51	2.54
Total securities	60,896	2,059	3.38	53,241	1,816	3.41
Total interest-earning assets	$172,792	$3,489 *(b)*	2.02%	$160,955	$3,526 *(b)*	2.19%
Allowance for loan losses	(522)			(420)		
Cash due from banks	3,832			3,638		
Other assets	47,979			45,766		
Assets of discontinued operations	404 *(c)*			2,188 *(c)*		
Assets of consolidated investment management funds	13,355			-		
Total assets	$237,840			$212,127		
Liabilities						
Interest-bearing liabilities:						
Interest-bearing deposits – domestic offices:						
Money market rate accounts *(d)*	$ 4,463	$ 20	0.46%	$ 2,603	$ 12	0.45%
Savings	1,396	4	0.26	1,136	2	0.17
Certificates of deposit of $100,000 & over	368	-	0.17	961	8	0.85
Other time deposits *(d)*	26,649	25	0.09	20,938	35	0.17
Total domestic	32,876	49	0.15	25,638	57	0.22
Interest-bearing deposits – foreign offices:						
Banks	5,401	18	0.33	5,182	13	0.26
Government and official institutions	1,423	1	0.05	866	1	0.10
Other	64,529	63	0.10	66,520	101	0.15
Total foreign	71,353	82	0.12	72,568	115	0.16
Total interest-bearing deposits	104,229	131	0.13	98,206	172	0.17
Federal funds purchased and securities sold under repurchase agreements	5,356	43	0.80	2,695	-	-
Trading liabilities	1,630	41	2.50	1,283	22	1.76
Other borrowed funds:						
Domestic offices	1,386	21	1.57	981	15	1.53
Foreign offices	677	3	0.39	593	5	0.85
Total other borrowed funds	2,063	24	1.18	1,574	20	1.27
Borrowings from the Federal Reserve related to ABCP	-	-	-	317	7	2.25
Payables to customers and broker-dealers	6,439	6	0.09	5,263	6	0.12
Long-term debt	16,673	300	1.80	16,893	366	2.17
Total interest-bearing liabilities	$136,390	$ 545	0.40%	$126,231	$ 593	0.47%
Total noninterest-bearing deposits	35,208			36,446		
Other liabilities	21,768			18,760		
Liabilities of discontinued operations	404 *(c)*			2,188 *(c)*		
Liabilities and obligations of consolidated investment management funds	12,218			-		
Total liabilities	205,988			183,625		
Equity						
Noncontrolling interests	752			26		
The Bank of New York Mellon Corporation shareholders' equity	31,100			28,476		
Total liabilities, temporary equity and permanent equity	$237,840			$212,127		
Net interest margin			1.70%			1.82%
Percentage of assets attributable to foreign offices *(e)*	43%			37%		
Percentage of liabilities attributable to foreign offices	36			34		

(a) Includes fees of $46 million in 2010 and $43 million in 2009. Non-accrual loans are included in the average loan balance; the associated income, recognized on the cash basis, is included in interest.

(b) The tax equivalent adjustment was $19 million in 2010 and $18 million in 2009, and is based on the applicable tax rate (35%).

(c) Average balances and rates are impacted by allocations made to match assets of discontinued operations with liabilities of discontinued operations.

(d) In 2011, certain money market rate accounts were reclassified to other time deposits. All prior periods have been restated.

(e) Includes the Cayman Islands branch office.

Noninterest expense

Noninterest expense (dollars in millions)	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Staff:					
Compensation	$ 3,567	$ 3,237	$ 2,985	10%	8%
Incentives	1,262	1,193	996	6	20
Employee benefits	897	785	719	14	9
Total staff	5,726	5,215	4,700	10	11
Professional, legal and other purchased services	1,217	1,099	1,017	11	8
Net occupancy	624	588	564	6	4
Software	485	410	367	18	12
Distribution and servicing	416	377	393	10	(4)
Furniture and equipment	330	315	309	5	2
Sub-custodian	298	247	203	21	22
Business development	261	271	214	(4)	27
Other	1,147	1,060	954	8	11
Subtotal	10,504	9,582	8,721	10	10
Amortization of intangible assets	428	421	426	2	(1)
Restructuring charges	89	28	150	218	(81)
Merger and integration ("M&I") expenses	91	139	233	(35)	(40)
Total noninterest expense	$11,112	$10,170	$ 9,530	9%	7%
Total staff expense as a percentage of total revenue	39%	38%	61% (a)		
Full-time employees at period end	48,700	48,000	42,200	1%	14%

(a) Excluding investment securities gains (losses), total staff expense as a percentage of total revenue (Non-GAAP) was 36% in 2009.

Total noninterest expense increased $942 million, or 9%, compared with 2010 primarily reflecting the full-year impact of the Acquisitions, which impacted nearly all expense categories and accounted for nearly 50% of the increase year-over-year. The increase in noninterest expense also reflects higher staff expense, volume-related expenses and software expense, as well as higher professional, legal and other purchased services.

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 2011 and 54% in 2010, excluding amortization of intangible assets, restructuring charges and M&I expenses.

Staff expense is comprised of:

- compensation expense, which includes:
  - salary expense, primarily driven by headcount;
  - the cost of temporary services and overtime; and
  - severance expense;
- incentive expense, which includes:
  - additional compensation earned under a wide range of sales commission and incentive plans designed to reward a combination of individual, business unit and corporate performance goals; as well as,
  - stock-based compensation expense; and
- employee benefit expense, primarily medical benefits, payroll taxes, pension and other retirement benefits.

The increase in staff expense compared with 2010 primarily reflects:

- the full-year impact of the Acquisitions;
- the annual employee merit increase effective in the second quarter of 2011;
- higher pension expense;
- higher incentives; and
- a $22 million charge as a result of a change in executive management.

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, legal, litigation, productivity initiatives and business development.

Non-staff expense, excluding amortization of intangible assets, restructuring charges and M&I expenses, totaled $4.8 billion in 2011 compared with $4.4 billion in 2010. The increase primarily reflects:

- the full-year impact of the Acquisitions;
- higher volume-related expenses;
- higher software expense resulting from new assets placed into service; and,
- higher legal costs.

These increases were partially offset by state investment tax credits received in 2011.

Pre-tax restructuring charges of $89 million in 2011 primarily related to efficiency initiatives to transform operations, technology and corporate services. The efficiency initiatives are expected to produce annualized pre-tax savings of $240 – $260 million in 2012. For additional information on restructuring charges, see Note 12 of the Notes to Consolidated Financial Statements.

In 2011, we incurred $91 million of M&I expenses primarily related to the integration of the Acquisitions.

The financial services industry has seen a continuing increase in the level of litigation activity. As a result, we anticipate our legal and litigation costs to continue at elevated levels. For additional information on litigation matters, see Note 24 of the Notes to Consolidated Financial Statements.

2010 compared with 2009

Total noninterest expense was $10.2 billion in 2010, an increase of $0.6 billion or 7% compared with 2009. The increase primarily reflects the impact of the Acquisitions and the full-year impact of the Insight acquisition, both of which impacted nearly all expense categories and higher litigation expense. Noninterest expense in 2010 also included M&I expenses of $139 million related to the Acquisitions and the 2007 Merger.

Income taxes

BNY Mellon recorded an income tax provision of $1.0 billion (29.0% effective tax rate) in 2011 compared with an income tax provision, on a continuing operations basis, of $1.0 billion (28.3% effective tax rate) in 2010 and an income tax benefit, on a continuing operations basis, of $1.4 billion (63.2% effective tax rate) in 2009. Excluding the impact of investment securities losses, M&I expenses, restructuring charges and benefits from discrete tax items, the effective tax rate for 2009 was 29.7%.

We expect the effective tax rate to be approximately 29-30% in the first quarter of 2012.

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. See "General – Organization of our business" for additional information. All prior periods presented in this Annual Report 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.

For information on the accounting principles of our businesses, the primary types of revenue generated by each business and how our businesses are presented and analyzed, see Note 26 of the Notes to Consolidated Financial Statements.

Information on our businesses is reported on a continuing operations basis for 2010 and 2009. See Note 4 to the Notes to Consolidated Financial Statements for a discussion of discontinued operations.

The results of our businesses may be influenced by client activities that vary by quarter. In the second quarter, we typically experience an increase in securities lending fees due to an increase in demand to borrow securities outside of the United States. In the third quarter, depositary receipts revenue is typically higher due to an increased level of client dividend payments paid in the quarter. Also in the third quarter, volume-related fees may decline due to reduced client activity. In our Investment Management business, performance fees are typically higher in the fourth quarter, as the fourth quarter represents the end of the measurement period for many of the performance fee eligible relationships.

The results of our businesses in 2011 were driven by the following factors. The Investment Management business benefited from higher average equity markets and net new business partially offset by higher money market fee waivers and lower performance fees. Results in the Investment Services business benefited from the full-year impact of the Acquisitions, net new business, higher Depositary Receipts revenue, the pre-tax gain on the sale of the Shareowner Services business and an increased level of secured loans, partially offset by lower foreign exchange fee revenue, higher money market fee waivers and lower trading volumes. NYSE and NASDAQ share volumes decreased 10% in 2011 compared with 2010.

Net securities gains (losses) 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.

Net interest revenue was impacted by growth in client deposits and loans, partially offset by lower spreads resulting from the continued impact of the low interest rate environment.

Noninterest expense increased compared to 2010 reflecting the full-year impact of the Acquisitions, restructuring charges related to efficiency initiatives to transform operations, technology and corporate services, higher volume-related expenses and higher software costs.

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

Market indices	2011	2010	2009	Increase/(Decrease) 2011 vs. 2010	2010 vs. 2009
S&P 500 Index *(a)*	1258	1258	1115	-%	13%
S&P 500 Index – daily average	1268	1140	948	11	20
FTSE 100 Index *(a)*	5572	5900	5413	(6)	9
FTSE 100 Index – daily average	5682	5468	4568	4	20
Barclay's Capital Aggregate Bond[sm] Index *(a)*	347	323	301	7	7
MSCI Emerging Markets (EM) IMI Index *(a)*	904	1151	981	(21)	17
NYSE and NASDAQ Share Volume *(in billions)*	893	997	1113	(10)	(10)

(a) Period end.

The period end S&P 500 Index at Dec. 31, 2011 was unchanged versus Dec. 31, 2010. The period end FTSE 100 Index decreased 6% at Dec. 31, 2011 versus Dec. 31, 2010. On a daily average basis, the S&P 500 Index increased 11% and the FTSE 100 Index increased 4% in 2011 versus 2010.

Fee revenue in Investment Management, and to a lesser extent Investment Services, is impacted by the value of market indices. At Dec. 31, 2011, using the S&P 500 Index as a proxy for the 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% and fully diluted earnings per common share by $0.03 to $0.05. If 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 year ended Dec. 31, 2011 *(dollar amounts in millions)*	Investment Management	Investment Services	Other	Consolidated
Fee and other revenue	$ 3,264 *(a)*	$ 7,957	$ 475	$ 11,696 *(a)*
Net interest revenue	206	2,635	143	2,984
Total revenue	3,470	10,592	618	14,680
Provision for credit losses	1	-	-	1
Noninterest expense	2,746	7,478	888	11,112
Income (loss) before taxes	$ 723 *(a)*	$ 3,114	$ (270)	$ 3,567 *(a)*
Pre-tax operating margin *(b)*	21%	29%	N/M	24%
Average assets	$37,043	$207,454	$46,648	$291,145
Excluding amortization of intangible assets:				
Noninterest expense	$ 2,532	$ 7,266	$ 886	$ 10,684
Income (loss) before taxes	937	3,326	(268)	3,995 *(a)*
Pre-tax operating margin *(b)*	27%	31%	N/M	27%

(a) Total fee and other revenue includes income from consolidated investment management funds of $200 million, net of noncontrolling interests of $50 million, for a net impact of $150 million. Income before taxes includes noncontrolling interests of $50 million.

(b) Income before taxes divided by total revenue.

RFJN_EX 25_ 0000022

For the year ended Dec. 31, 2010 (dollar amounts in millions)	Investment Management	Investment Services	Other	Total continuing operations
Fee and other revenue	$ 3,234 *(a)*	$ 7,179	$ 478	$ 10,891 *(a)*
Net interest revenue	205	2,448	272	2,925
Total revenue	3,439	9,627	750	13,816
Provision for credit losses	3	-	8	11
Noninterest expense	2,693	6,515	962	10,170
Income (loss) before taxes	$ 743 *(a)*	$ 3,112	$ (220)	$ 3,635 *(a)*
Pre-tax operating margin *(b)*	22%	32%	N/M	26%
Average assets	$35,411	$161,605	$40,420	$237,436 *(c)*
Excluding amortization of intangible assets:				
Noninterest expense	$ 2,456	$ 6,333	$ 960	$ 9,749
Income (loss) before taxes	980	3,294	(218)	4,056 *(a)*
Pre-tax operating margin *(b)*	28%	34%	N/M	29%

(a) *Total fee and other revenue includes income from consolidated investment management funds of $226 million, net of noncontrolling interests of $59 million, for a net impact of $167 million. Income before taxes includes noncontrolling interests of $59 million.*

(b) *Income before taxes divided by total revenue.*

(c) *Including average assets of discontinued operations of $404 million in 2010, consolidated average assets were $237,840 million.*

For the year ended Dec. 31, 2009 (dollar amounts in millions)	Investment Management	Investment Services	Other	Total continuing operations
Fee and other revenue	$ 2,825	$ 6,887	$(4,973)	$ 4,739
Net interest revenue	242	2,349	324	2,915
Total revenue	3,067	9,236	(4,649)	7,654
Provision for credit losses	1	-	331	332
Noninterest expense	2,499	5,901	1,130	9,530
Income (loss) before taxes	$ 567	$ 3,335	$(6,110)	$ (2,208)
Pre-tax operating margin *(a)*	18%	36%	N/M	N/M
Average assets	$21,840	$151,001	$37,098	$209,939 *(b)*
Excluding amortization of intangible assets:				
Noninterest expense	$ 2,235	$ 5,740	$ 1,129	$ 9,104
Income (loss) before taxes	831	3,496	(6,109)	(1,782)
Pre-tax operating margin *(a)*	27%	38%	N/M	N/M

(a) *Income before taxes divided by total revenue.*

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

Investment Management business

(dollar amounts in millions, unless otherwise noted)	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Revenue:					
Investment management and performance fees:					
Mutual funds	$ 1,073	$1,066	$1,098	1%	(3)%
Institutional clients	1,248	1,141	847	9	35
Wealth management	638	623	596	2	5
Performance fees	93	123	93	(24)	32
Total investment management and performance fees	3,052	2,953	2,634	3	12
Distribution and servicing	181	201	279	(10)	(28)
Other *(a)*	31	80	(88)	(61)	N/M
Total fee and other revenue *(a)*	3,264	3,234	2,825	1	14
Net interest revenue	206	205	242	-	(15)
Total revenue	3,470	3,439	3,067	1	12
Provision for credit losses	1	3	1	N/M	N/M
Noninterest expense (ex. amortization of intangible assets)	2,532	2,456	2,235	3	10
Income before taxes (ex. amortization of intangible assets)	937	980	831	(4)	18
Amortization of intangible assets	214	237	264	(10)	(10)
Income before taxes	$ 723	$ 743	$ 567	(3)%	31%
Pre-tax operating margin	21%	22%	18%		
Pre-tax operating margin (ex. amortization of intangible assets and net of distribution and servicing expense) *(b)*	31%	32%	31%		
Wealth management:					
Average loans	$ 6,970	$6,461	$5,821	8%	11%
Average deposits	$10,113	$8,240	$6,788	23%	21%

(a) Total fee and other revenue includes the impact of the consolidated investment management funds. See "Supplemental Information" beginning on page 66. Additionally, other revenue includes asset servicing, clearing services and treasury services revenue.
(b) Distribution and servicing expense is netted with the distribution and servicing revenue for the purpose of this calculation of pre-tax operating margin. Distribution and servicing expense totaled $412 million, $376 million and $393 million, respectively.

AUM trends *(a)* *(in billions)*	2011	2010	2009	2008	2007
AUM at period end, by product type:					
Equity securities	$ 390	$ 379	$ 337	$ 270	$ 460
Money market	328	332	357	402	296
Fixed income securities	437	342	302	168	218
Alternative investments and overlay	105	119	119	88	147
Total AUM	$1,260	$1,172	$1,115	$ 928	$1,121
AUM at period end, by client type:					
Institutional	$ 757	$ 639	$ 611	$ 445	$ 671
Mutual funds	427	454	416	400	349
Private client	76	79	88	83	101
Total AUM	$1,260	$1,172	$1,115	$ 928	$1,121
Changes in market value of AUM in the Investment Management business:					
Beginning balance market value of AUM	$1,172	$1,115	$ 928	$1,121	$ 142
Net inflows (outflows):					
Long-term	83	48	(6)	(43)	(15)
Money market	(14)	(18)	(49)	92	70
Total net inflows (outflows)	69	30	(55)	49	55
Net market/currency impact	19	27	95	(235)	(5)
Acquisitions/divestitures	-	-	147	(7)	929
Ending balance market value of AUM	$1,260	$1,172	$1,115	$ 928	$1,121

(a) Excludes securities lending cash management assets.

Business description

Our Investment Management business is comprised of our affiliated investment management boutiques and wealth management business.

Our Investment Management business is responsible, through various subsidiaries, for U.S. and non-U.S. retail, intermediary and institutional investment management, distribution and related services. The investment management boutiques offer a broad range of equity, fixed income, cash and alternative/overlay products. In addition to the investment subsidiaries, this business includes BNY Mellon Asset Management International, which is responsible for the investment management and distribution of non-U.S. products, and the Dreyfus Corporation and its affiliates, which are responsible for U.S. investment management and distribution of retail mutual funds, separate accounts and annuities. We are one of the world's largest asset managers with a top-10 position in both the United States and Europe and 11th position globally.

Through BNY Mellon Wealth Management, we offer a full array of investment management, wealth and estate planning and private banking solutions to help clients protect, grow and transfer their wealth through an extensive network of offices in the U.S., Canada, UK and Asia. Clients include high-net-worth individuals and families, charitable gift programs, endowments and foundations and related entities. BNY Mellon Wealth Management is ranked as the nation's seventh largest wealth manager and third largest private bank.

The results of the Investment Management business are driven by the period-end, average level and mix of assets managed and the level of activity in client accounts. The overall level of AUM for a given period is determined by:

- the beginning level of AUM;
- the net flows of new assets during the period resulting from new business wins and existing client enrichments, reduced by the loss of clients and withdrawals; and
- the impact of market price appreciation or depreciation, the impact of any acquisitions or divestitures and foreign exchange rates.

The mix of AUM is determined principally by client asset allocation decisions among equities, fixed income, alternative investments and overlay, and money market products.

Managed equity assets typically generate higher percentage fees than money market and fixed-income assets. Also, actively managed assets typically generate higher management fees than indexed or passively managed assets of the same type.

Management fees are typically subject to fee schedules based on the overall level of assets managed for a single client or by individual asset class and style. This is most prevalent for institutional assets where amounts we manage for individual clients are typically large.

A key driver of organic growth in investment management and performance fees is the amount of net new AUM flows. Overall market conditions are also key drivers, with a significant long-term economic driver being the growth of global financial assets.

Performance fees are generally calculated as a percentage of a portfolio's performance in excess of a benchmark index or a peer group's performance.

Results for this business are also impacted by sales of fee-based products. Net interest revenue is determined by loan and deposit volumes and the interest rate spread between customer rates and internal funds transfer rates on loans and deposits. Expenses in this business are mainly driven by staffing costs, incentives and distribution and servicing expense.

Review of financial results

Investment management and performance fees are dependent on the overall level and mix of AUM and the management fees expressed in basis points (one-hundredth of one percent) charged for managing those assets. Assets under management were $1.26 trillion at Dec. 31, 2011 compared with $1.17 trillion at Dec. 31, 2010, an increase of 8%. The increase primarily reflects net new business and higher market values, offset in part by short-term outflows.

Net long-term inflows were $83 billion and benefited from strength in fixed income and equity-indexed products. Net short-term outflows were $14 billion in 2011.

Revenue generated in the Investment Management business includes 42% from non-U.S. sources in 2011 compared with 40% in 2010.

In 2011, Investment Management had pre-tax income of $723 million compared with $743 million in 2010.

Excluding amortization of intangible assets, pre-tax income was $937 million in 2011 compared with $980 million in 2010. Investment Management results for 2011 reflect the impact of net new business in the investment management boutiques and the wealth management business, the adverse impact of the low interest rate environment, and lower performance fees.

Investment management and performance fees in the Investment Management business were $3.1 billion in 2011 compared with $3.0 billion in 2010. The increase was driven by net new business and higher average equity markets, largely offset by higher money market fee waivers and lower non-U.S. markets and performance fees.

In 2011, 35% of investment management and performance fees were generated from managed mutual fund fees. These fees are based on the daily average net assets of each fund and the management fee paid by that fund. Managed mutual fund fee revenue was $1.1 billion in both 2011 and 2010. Managed mutual fund fees were impacted by net new business and higher average equity markets in the U.S., primarily offset by higher money market fee waivers.

Distribution and servicing fees were $181 million in 2011 compared with $201 million in 2010. The decrease primarily reflects higher money market fee waivers.

Other fee revenue was $31 million in 2011 compared with $80 million in 2010. The decrease primarily resulted from a $30 million write-down of an equity investment, mark-to-market seed capital losses and lower securities gains.

Net interest revenue was $206 million in 2011, compared with $205 million in 2010. The increase primarily resulted from higher average deposits and loans, largely offset by the impact of low interest rates. Average deposits increased 23% in 2011 compared with 2010 while average loans increased 8% in 2011 compared with 2010.

Noninterest expense excluding amortization of intangible assets was $2.53 billion in 2011 and $2.46 billion in 2010. The increase was primarily driven by higher distribution and servicing and staff expenses, primarily resulting from net new business.

2010 compared with 2009

Income before taxes was $743 million in 2010, compared with $567 million in 2009. Income before taxes excluding amortization of intangible assets and support agreement charges was $980 million in 2010 compared with $831 million in 2009. Fee and other revenue increased $409 million, primarily reflecting improved market values, the full-year impact of the Insight acquisition, higher performance fees, net new business and a higher value of seed capital investments. Investment management results also include $12 million of securities gains in 2010 and $76 million of securities losses in 2009. The increase in fee and other revenue was partially offset by higher fee waivers and short-term outflows. Noninterest expense (excluding amortization of intangible assets) increased $221 million in 2010 compared with 2009 primarily due to higher incentives expense resulting from an increase in performance fees, as well as the impact of adjusting compensation to market levels, and the full-year impact of the Insight acquisition.

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Investment Services business

(dollar amounts in millions, unless otherwise noted)	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Revenue:					
Investment services fees:					
Asset servicing	$ 3,586	$ 2,954	$ 2,461	21%	20%
Issuer services	1,446	1,460	1,463	(1)	-
Clearing services	1,149	993	948	16	5
Treasury services	532	526	515	1	2
Total investment services fees	6,713	5,933	5,387	13	10
Foreign exchange and other trading revenue	840	882	1,059	(5)	(17)
Other *(a)*	404	364	441	11	(17)
Total fee and other revenue *(a)*	7,957	7,179	6,887	11	4
Net interest revenue	2,635	2,448	2,349	8	4
Total revenue	10,592	9,627	9,236	10	4
Noninterest expense (ex. amortization of intangible assets)	7,266	6,333	5,740	15	10
Income before taxes (ex. amortization of intangible assets)	3,326	3,294	3,496	1	(6)
Amortization of intangible assets	212	182	161	16	13
Income before taxes	$ 3,114	$ 3,112	$ 3,335	-%	(7)%
Pre-tax operating margin	29%	32%	36%		
Pre-tax operating margin (ex. amortization of intangible assets)	31%	34%	38%		
Investment services fees as a percentage of noninterest expense *(b)*	95%	94%	93%		
Securities lending revenue	$ 146	$ 107	$ 222	36%	(52)%
Metrics:					
Average loans	$ 23,298	$ 17,096	$ 13,754	36%	24%
Average deposits	168,115	127,066	120,494	32	5
Asset servicing:					
New business wins (AUC) *(in billions)*	$ 1,219	$ 1,450	$ 1,197		
Corporate Trust:					
Total debt serviced *(in trillions)*	$ 11.8	$ 12.0	$ 12.0	(2)%	-%
Number of deals administered	133,850	138,067	142,442	(3)%	(3)%
Depositary Receipts:					
Number of sponsored programs	1,389	1,359	1,330	2%	2%
Clearing services:					
DARTS volume *(in thousands)*	197.5	183.3	223.0	8%	(18)%
Average active clearing accounts *(in thousands)*	5,427	4,901	4,995	11%	(2)%
Average long-term mutual fund assets (U.S. platform) *(in millions)*	$292,252	$240,396	$190,524	22%	26%
Average margin loans *(in millions)*	$ 7,347	$ 5,891	$ 4,326	25%	36%
Broker-Dealer:					
Average collateral management balances *(in billions)*	$ 1,865	$ 1,647	$ 1,559	13%	6%
Treasury services:					
Global payments transaction volume *(in thousands)*	43,649	42,733	42,252	2%	1%

(a) Total fee and other revenue includes investment management fees and distribution and servicing revenue.
(b) Noninterest expense excludes amortization of intangible assets, support agreement charges and litigation expense.

Assets under custody and administration trend	2011	2010	2009	2008	2007
Market value of AUC at period end *(in trillions) (a)*	$25.8	$25.0	$22.3	$20.2	$23.1
Market value of securities on loan at period end *(in billions) (b)*	$ 269	$ 278	$ 247	$ 326	$ 633

(a) Includes the assets under custody or administration of CIBC Mellon Global Securities Services Company, a joint venture with the Canadian Imperial Bank of Commerce, of $1.1 trillion at both Dec. 31, 2011 and Dec. 31, 2010, $905 billion at Dec. 31, 2009, $697 billion at Dec. 31, 2008, and $989 billion at Dec. 31, 2007.
(b) Represents the total amount of securities on loan, both cash and non-cash, managed by the Investment Services business.

Business description

Our Investment Services business provides global custody and related services, broker-dealer services, alternative investment services, corporate trust and depositary receipt, as well as clearing services and global payment/working capital solutions to institutional clients.

Our comprehensive suite of financial solutions includes: global custody, global fund services, securities lending, investment manager outsourcing, performance and risk analytics, alternative investment services, securities clearance, collateral management, corporate trust, American and global depositary receipt programs, cash management solutions, payment services, liquidity services and other revenues, principally foreign exchange, global clearing and execution, managed account services and global prime brokerage solutions. Our clients include corporations, public funds and government agencies, foundations and endowments; global financial institutions including banks, broker-dealers, asset managers, insurance companies and central banks; financial intermediaries and independent registered investment advisors and hedge fund managers. We help our clients service their financial assets through a network of offices and operations centers in 36 countries across six continents.

The results of this business are driven by a number of factors which include: the level of transaction activity; the range of services provided, including custody, accounting, fund administration, daily valuations, performance measurement and risk analytics, securities lending, and investment manager back-office outsourcing; and the market value of assets under administration and custody. Market interest rates impact both securities lending revenue and the earnings on client deposit balances. Business expenses are driven by staff, technology investment, equipment and space required to support the services provided by the business and the cost of execution and clearance and custody of securities.

We are one of the leading global securities servicing providers with a total of $25.8 trillion of assets under custody and administration at Dec. 31, 2011.

We are the largest custodian for U.S. corporate and public pension plans and we service 44% of the top 50 endowments. We are a leading custodian in the UK and service 25% of UK pensions. European asset servicing continues to grow across all products, reflecting significant cross-border investment and capital flows.

We are one of the largest providers of fund services in the world, servicing over $6.5 trillion in assets. We are the third largest fund administrator in the alternative investment services industry and service 44% of the funds in the U.S. exchange-traded funds marketplace.

BNY Mellon is a leader in both global securities and U.S. Government securities clearance. We clear and settle equity and fixed income transactions in over 100 markets and handle most of the transactions cleared through the Federal Reserve Bank of New York for 17 of the 21 primary dealers. We are an industry leader in collateral management, servicing $1.8 trillion as a clearing bank in tri-party balances worldwide at Dec. 31, 2011.

In connection with our role as a clearing and custody bank for the tri-party repurchase ("repo") transaction market, we work with dealers who use repos to finance their securities by selling them to counterparties, agreeing to buy them back at a later date. In tri-party repos, a clearing and custody bank such as The Bank of New York Mellon acts as the intermediary between a dealer and its counterparty in settling the transaction and providing mark-to-market and other services.

In securities lending, we are one of the largest lenders of U.S. Treasury securities and depositary receipts and service a lending pool of more than $3.0 trillion in 31 markets. We are one of the largest global providers of performance and risk analytics, with $9.7 trillion in assets under measurement.

BNY Mellon is the leading provider of corporate trust services for all major conventional and structured finance debt categories, and a leading provider of specialty services. We service $11.8 trillion in outstanding debt from 61 locations in 20 countries.

We serve as depositary for 1,389 sponsored American and global depositary receipt programs at Dec. 31, 2011, acting in partnership with leading companies from 65 countries – a 62% global market share.

With a network of more than 2,000 correspondent financial institutions, we help clients in their efforts to optimize cash flow, manage liquidity and make payments more efficiently around the world in more than 100 currencies. We are the fourth largest Fedwire and CHIPS payment processor, processing about 170,000 global payments daily totaling an average of $1.5 trillion.

Pershing, our clearing service, takes a consultative approach, working with more than 1,500 financial organizations and 100,000 investment professionals who collectively represent more than five and a half million individual and institutional investors by delivering dependable operational support; robust trading services; flexible technology; an expansive array of investment solutions, including managed accounts, mutual funds and cash management; practice management support and service excellence.

Sale of Shareowner Services

On Dec. 31, 2011, BNY Mellon sold its Shareowner Services business. See "Key 2011 events" for additional information.

Role of BNY Mellon, as a trustee, for mortgage-backed securitizations

BNY Mellon acts as trustee and document custodian for certain mortgage-backed security ("MBS") securitization trusts. The role of trustee for MBS securitizations is limited; our primary role as trustee is to calculate and distribute monthly bond payments to bondholders. As a document custodian, we hold the mortgage, note, and related documents provided to us by the loan originator or seller and provide periodic reporting to these parties. BNY Mellon, either as document custodian or trustee, does not receive mortgage underwriting files (the files that contain information related to the creditworthiness of the borrower). As trustee or custodian, we have no responsibility or liability for the quality of the portfolio; we are liable only for performance of the limited duties as described above and set forth in the trust document. BNY Mellon is indemnified by the servicers or directly from trust assets under the governing agreements. BNY Mellon may appear as the named plaintiff in legal actions brought by servicers in foreclosure and other related proceedings because the trustee is the nominee owner of the mortgage loans within the trusts.

Review of financial results

Assets under custody and administration at Dec. 31, 2011 were $25.8 trillion, an increase of 3% from $25.0 trillion at Dec. 31, 2010. The increase was driven by net new business. Equity securities constituted 33% and fixed-income securities constituted 67% of the assets under custody and administration at Dec. 31, 2011, compared with 32% equity securities and 68% fixed income securities at Dec. 31, 2010. Assets under custody and administration at Dec. 31, 2011 consisted of assets related to custody, mutual funds and corporate trust businesses of $20.5 trillion, broker-dealer service assets of $3.4 trillion, and all other assets of $1.9 trillion.

Income before taxes was $3.1 billion in both 2011 and 2010. Income before taxes, excluding amortization of intangible assets, was $3.3 billion in both 2011 and 2010. Investment Services results in 2011 were primarily impacted by the full-year impact of the Acquisitions, net new business, higher money market fee waivers, as well as higher volume-driven expenses and expense incurred to support business growth.

Revenue generated in the Investment Services business includes 37% from non-U.S. sources in both 2011 and 2010.

Investment services fees increased $780 million, or 13%, in 2011 compared with 2010.

- Asset servicing revenue (global custody, broker-dealer services and alternative investment services) was $3.6 billion in 2011 compared with $3.0 billion in 2010. The increase was primarily driven by the full-year impact of the Acquisitions, higher market values of AUC, net new business and higher securities lending revenue due to wider spreads, partially offset by lower volumes.
- Issuer services revenue (Corporate Trust, Depositary Receipts and Shareowner Services) was $1.4 billion in 2011 compared with $1.5 billion in 2010. The decrease primarily resulted from lower revenue in our Shareowner Services and Corporate Trust businesses, primarily offset by higher Depositary Receipts revenue driven by higher corporate action fees and net new business.
- Clearing services revenue (Pershing) was $1.1 billion in 2011 compared with $1.0 billion in 2010. The increase reflects the full-year impact of the GIS acquisition, net new business, growth in mutual fund assets and positions and an 8% increase in DARTS, partially offset by higher money market fee waivers.

Foreign exchange and other trading revenue decreased $42 million compared with 2010, primarily reflecting lower volatility and spreads, partially offset by higher volumes.

Net interest revenue increased $187 million compared with 2010, primarily driven by higher average customer deposits and loan levels, offset in part by narrower spreads.

Noninterest expense, excluding amortization of intangible assets, increased $933 million compared with 2010. The increase in expenses primarily resulted from the full-year impact of the Acquisitions, higher litigation and volume-driven expenses and increased expenses in support of business growth.

2010 compared with 2009

Income before taxes was $3.1 billion in 2010, compared with $3.3 billion in 2009. Income before taxes, excluding amortization of intangible assets, was $3.3 billion in 2010 compared with $3.5 billion in 2009. Fee and other revenue increased $292 million, primarily due to the impact of the Acquisitions, higher market values of AUC and net new business, partially offset by lower foreign exchange trading volatility, lower money market related distribution fees and lower trading volumes. Net interest revenue increased $99 million, primarily driven higher yields related to restructured investment securities portfolio and increased loan and deposit balances. Noninterest expense, excluding amortization of intangible assets, increased $593 million, primarily due to the impact of the Acquisitions, higher volume-driven expenses and expenses supporting business growth.

Other Segment

(dollars in millions)	2011	2010	2009
Revenue:			
Fee and other revenue	$ 475	$ 478	$ (4,973)
Net interest revenue	143	272	324
Total revenue	618	750	(4,649)
Provision for credit losses	-	8	331
Noninterest expense (ex. amortization of intangible assets, restructuring charges and M&I expenses)	706	793	746
Income (loss) before taxes (ex. amortization of intangible assets, restructuring charges and M&I expenses)	(88)	(51)	(5,726)
Amortization of intangible assets	2	2	1
Restructuring charges	89	28	150
M&I expenses	91	139	233
Income (loss) before taxes	$ (270)	$ (220)	$ (6,110)
Average assets	$46,648	$40,420	$37,098
Average deposits	$ 4,451	$ 4,132	$ 7,370

Business description

The Other segment primarily includes:

- credit-related services;
- the leasing portfolio;
- corporate treasury activities, including our investment securities portfolio;
- our equity investment in Wing Hang Bank;
- a 33.2% equity interest in ConvergEx; and
- business exits and corporate overhead.

Revenue primarily reflects:

- net interest revenue from the credit services and lease financing portfolios;
- interest income remaining after transfer pricing allocations;
- fee and other revenue from corporate and bank-owned life insurance and credit-related financing revenue; and
- gains (losses) associated with the valuation of investment securities and other assets.

Expenses include:

- M&I expenses;
- restructuring charges;
- direct expenses supporting credit-related services, leasing, investing and funding activities; and
- certain corporate overhead not directly attributable to the operations of other businesses.

Equity stake in ConvergEx Group

On Dec. 23, 2011, the previously-announced agreement to sell a majority of our equity stake in ConvergEx Group was terminated.

Review of financial results

Income before taxes was a loss of $270 million in 2011 compared with a loss of $220 million in 2010.

Total fee and other revenue decreased $3 million in 2011 compared with 2010. The decrease primarily reflects lower leasing gains, financing related fees, private equity investment gains and the impact of wider credit spreads on the CVA in 2011, partially offset by gains related to loans held-for-sale from a previously divested bank subsidiary

RFJN_EX 25_ 0000030

Net interest revenue decreased $129 million in 2011 compared with 2010, primarily reflecting a reduction in the net interest margin resulting from the continued impact of the low interest rate environment as well as lower average loan and lease balances resulting from our strategy to reduce targeted risk exposure.

Noninterest expense (excluding amortization of intangible assets, restructuring charges and M&I expenses) decreased $87 million in 2011 compared with 2010. The decrease was driven by lower litigation expense and the impact of state investment tax credits in 2011.

2010 compared with 2009

Income before taxes was a loss of $220 million in 2010 compared with a loss of $6.1 billion in 2009. Total fee and other revenue increased $5.5 billion, primarily due to net securities losses related to the restructured investment securities portfolio recorded in 2009. Net interest revenue decreased $52 million, primarily reflecting our strategy to reduce targeted risk exposure. The provision for credit losses decreased $323 million in 2010 reflecting a decline in criticized assets and improvements in the insurance, media and residential mortgage portfolios. Noninterest expense excluding amortization of intangible assets, restructuring charges and M&I expenses increased $47 million in 2010 compared with 2009 as a result of higher litigation expenses, partially offset by a special FDIC assessment recorded in 2009, as well as lower legal costs and consulting fees. M&I expenses related to the Acquisitions and the 2007 Merger were $139 million in 2010 compared with $233 million in 2009, primarily related to the 2007 Merger.

International operations

Our primary international activities consist of securities services and global payment services in our investment services business, and asset management in our investment management business.

Our clients include some of the world's largest asset managers, insurance companies, corporations, financial intermediaries, local authorities and pension funds. Through our global network of offices, we have developed a deep understanding of local requirements and cultural needs and we pride ourselves in providing dedicated service through our multilingual sales, marketing and client service teams.

We conduct business through subsidiaries, branches, and representative offices in 36 countries. We have operational centers based in Brussels, Cork, Dublin, Navan, Wexford, Luxembourg, Singapore, Wroclaw, throughout the United Kingdom including London, Manchester, Brentwood, Edinburgh and Poole, and Chennai and Pune in India.

At Dec. 31, 2011, we had approximately 9,000 employees in Europe, the Middle East and Africa ("EMEA"), approximately 8,000 employees in the Asia-Pacific region ("APAC") and approximately 700 employees in other global locations, primarily Brazil.

At Dec. 31, 2011, our cross-border assets under custody and administration were $9.7 trillion compared with $9.2 trillion at Dec. 31, 2010. This increase was primarily driven by net new business.

In Europe, we maintain a significant presence in the Undertakings for Collective Investment in Transferable Securities Directives ("UCITS") servicing field. In Ireland, BNY Mellon is the largest administrator of third-party assets and largest provider of trustee services. In Luxembourg, BNY Mellon is a top 10-ranked fund administrator. We provide global clearance services in more than 100 markets and service $1.8 trillion in daily tri-party balances spanning 40 markets.

The acquisition of GIS and BAS in 2010 expanded our investment services business worldwide. GIS enhanced our managed account platform, performance reporting capabilities and business intelligence tools for broker-dealer and registered investment advisor clients. BAS offers a full range of tailored solutions for investment companies, financial institutions and institutional investors in Germany.

We serve as the depositary for 1,389 sponsored American and global depositary receipt programs, acting in partnership with leading companies from 65 countries. As the world's leading provider of corporate trust and agency services, BNY Mellon services $11.8 trillion in outstanding debt from 61 locations, in 20 countries, for clients including governments and their agencies, multi-national corporations, financial institutions and other entities that access the global debt markets. We leverage our global footprint and expertise to deliver customized and market-driven solutions across a full range of debt issuer and related investor services.

BNY Mellon Asset Management operates on a multi-boutique model, bringing investors the skills of our specialist boutique asset managers, which together manage investments spanning virtually all asset classes.

We are one of the largest global asset managers, ranking 11th in the institutional marketplace and are the 8th largest asset manager active in Europe. We are also a market leader in the field of liability-driven investments.

At Dec. 31, 2011, our international operations managed 38% of BNY Mellon's AUM, compared with 34% at Dec. 31, 2010. The increase primarily resulted from net long-term inflows in fixed income products and improved market values.

We process 170,000 global payments daily, totaling an average of $1.5 trillion. With payment services provided in more than 100 currencies through more than 2,000 correspondent bank accounts worldwide, we are a recognized leader in receivables and payables processing.

We have over 50 years of experience providing trade and cash services to financial institutions and central banks outside of the U.S. In addition, we offer a broad range of servicing and fiduciary products to financial institutions, corporations and central banks depending on the state of market development. In emerging markets, we lead with global payments and issuer services, introducing other products as the markets mature. For more established markets, our focus is on global, not local, investment services.

We are also a full-service global provider of foreign exchange services, actively trading in over 80 of the world's currencies. We serve clients from ten trading rooms in Europe, Asia and North America.

Our financial results, as well as our level of AUM and AUC, are impacted by the translation of financial results denominated in foreign currencies to the U.S. dollar. We are primarily impacted by activities denominated in the British pound and the Euro. If the U.S. dollar depreciates against these currencies, the translation impact is a higher level of fee revenue, net interest revenue, noninterest expense and AUM and AUC. Conversely, if the U.S. dollar appreciates, the translated levels of fee revenue, net interest revenue, noninterest expense and AUM and AUC will be lower.

Foreign exchange rates for one U.S. dollar	2011	2010	2009
Spot rate (at Dec. 31):			
British pound	$1.5448	$1.5545	$1.6154
Euro	1.2934	1.3373	1.4348
Yearly average rate:			
British pound	$1.6038	$1.5457	$1.5659
Euro	1.3921	1.3270	1.3946

International clients accounted for 37% of revenue in 2011 compared with 36% in 2010 and 53% in 2009. Income from international operations was $1.5 billion in 2011 compared with income from continuing operations of $1.5 billion in 2010 and $1.1 billion in 2009.

In 2011, revenues from EMEA were $3.8 billion, compared with $3.5 billion in 2010 and $2.8 billion in 2009. Revenues from EMEA were up 8% for 2011 compared to 2010. The increase in 2011 primarily reflects the full-year impact of the Acquisitions, higher market values and net new business, partially offset by lower volumes, lower performance fees and a write-down of an equity investment in the fourth quarter of 2011. Investment Services generated 72% and Investment Management generated 28% of EMEA revenues. Income from continuing operations from EMEA was $867 million in 2011 compared with $916 million in 2010 and $667 million in 2009.

Revenues from APAC were $842 million in 2011 compared with $745 million in 2010 and $669 million in 2009. Revenues from APAC were up 13% for 2011 compared to 2010. The increase in 2011 primarily resulted from higher net interest revenue and net new business. Revenue from APAC in 2011 was generated by Investment Services 67% and Investment Management 27%. Income from continuing operations from APAC was $325 million in 2011 compared with $295 million in 2010 and $222 million in 2009.

Net income in EMEA reflects the same factors affecting revenue, which were more than offset by higher expenses, including higher risk expenses as well as a credit loss incurred in the second quarter. Net income in APAC was driven by the same factors affecting revenue. For additional information regarding our International operations, see Note 27 of the Notes to Consolidated Financial Statements.

Exposure in Ireland, Italy, Spain and Portugal

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

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

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

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

See "Risk management" for additional information on how our exposures are managed.

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

On- and off-balance sheet exposure at Dec. 31, 2011 *(in millions)*	Ireland	Italy	Spain	Portugal	Total
On-balance sheet exposure					
Gross:					
Interest-bearing deposits with banks *(a)*	$ 97	$ 24	$ 4	$ -	$ 125
Investment securities (primarily European Floating Rate Notes) *(b)*	208	155	27	-	390
Loans and leases *(c)*	411	3	4	-	418
Trading assets *(d)*	117	53	16	3	189
Total gross on-balance sheet exposure	833	235	51	3	1,122
Less:					
Collateral	102	39	7	3	151
Guarantees	-	3	1	-	4
Total collateral and guarantees	102	42	8	3	155
Total net on-balance sheet exposure	**$ 731**	**$193**	**$43**	**$ -**	**$ 967**
Off-balance sheet exposure					
Gross:					
Lending-related commitments *(e)*	$ 273	$ -	$ -	$ -	$ 273
Letters of credit *(f)*	-	2	14	-	16
Total gross off-balance sheet exposure	273	2	14	-	289
Less:					
Collateral	190	-	14	-	204
Total net off-balance sheet exposure	**$ 83**	**$ 2**	**$ -**	**$ -**	**$ 85**
Total exposure:					
Total gross on- and off-balance sheet exposure	**$1,106**	**$237**	**$65**	**$3**	**$1,411**
Less: Total collateral and guarantees	292	42	22	3	359
Total net on- and off-balance sheet exposure	**$ 814**	**$195**	**$43**	**$ -**	**$1,052**

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

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

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

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

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

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

Cross-border risk

Foreign assets are subject to general risks attendant to the conduct of business in each foreign country, including economic uncertainties and each foreign government's regulations. In addition, our foreign assets may be affected by changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. Cross-border outstandings include loans, acceptances, interest-bearing deposits with other banks, other interest-bearing investments, and other monetary assets which are denominated in U.S. dollars or other non-local currency. Also included are local currency outstandings not hedged or funded by local borrowings.

The table below shows our cross-border outstandings for the last three years where cross-border exposure exceeds 1.00% of total assets (denoted with "*") or 0.75% of total assets (denoted with "**").

Cross-border outstandings (in millions)	Banks and other financial institutions *(a)*	Public sector	Commercial, industrial and other	Total cross-border outstandings *(b)*
2011:				
Japan*	$4,703	$ 15	$ 16	$4,734
Australia*	4,418	-	239	4,657
Germany*	4,062	-	464	4,526
United Kingdom*	3,369	25	713	4,107
France*	3,341	7	117	3,465
Netherlands**	2,079	-	905 (c)	2,984
2010:				
Germany*	$7,007	$ 15	$ 312	$7,334
France*	6,109	20	124	6,253
Netherlands*	4,338	-	1,205 (c)	5,543
Australia *	2,663	-	275	2,938
Switzerland *	2,839	-	30	2,869
Belgium*	2,411	-	184	2,595
Japan**	2,261	-	7	2,268
United Kingdom **	533	-	1,411	1,944
Hong Kong **	1,908	-	18	1,926
2009:				
France*	$6,519	$ 56	$1,307	$7,882
Germany*	5,325	75	156	5,556
Netherlands*	2,765	-	1,312 (c)	4,077
Spain*	3,903	-	133	4,036
Belgium*	3,162	377	199	3,738
United Kingdom*	2,850	-	613	3,463
Japan**	1,809	-	7	1,816
Ireland**	932	1	895 (c)	1,828

(a) Primarily short-term interest-bearing deposits with banks.
(b) Excludes assets of consolidated investment management funds.
(c) Primarily European floating rate notes.

RFJN_EX 25_ 0000034

Emerging markets exposure

We determine our emerging markets exposures using the MSCI Emerging Markets (EM) IMI Index. Our emerging markets exposures totaled $8 billion at Dec. 31, 2011 compared with $5 billion at Dec. 31, 2010. The increase in emerging markets exposure was primarily driven by higher short-term loans and interest-bearing deposits with banks.

Critical accounting estimates

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements under "Summary of significant accounting and reporting policies". Our more critical accounting estimates are those related to the allowance for loan losses and allowance for lending-related commitments, fair value of financial instruments and derivatives, other-than-temporary impairment, goodwill and other intangibles, and pension accounting. Further information on policies related to the allowance for loan losses and allowance for lending-related commitments can be found under "Summary of significant accounting and reporting policies" in Note 1 of the Notes to Consolidated Financial Statements. Further information on the valuation of derivatives and securities where quoted market prices are not available can be found under "Fair value measurement" in Note 22 of the Notes to Consolidated Financial Statements. Further information on policies related to goodwill and intangible assets can be found in "Goodwill and intangible assets" in Note 7 of the Notes to Consolidated Financial Statements. Additional information on pensions can be found in "Employee benefit plans" in Note 19 of the Notes to Consolidated Financial Statements.

Allowance for loan losses and allowance for lending-related commitments

The allowance for loan losses and allowance for lending-related commitments represents management's estimate of probable losses inherent in our credit portfolio. This evaluation process is subject to numerous estimates and judgments.

In 2011, we implemented an enhanced methodology for determining the allowance for credit losses by adding a qualitative allowance framework. Within this framework, management applies judgment when assessing internal risk factors and environmental factors to compute an additional allowance for each component of the loan portfolio.

The three elements of the allowance for loan losses and the allowance for lending-related commitments include the qualitative allowance framework. The three elements are:

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

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

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

The third element, the allowance for residential mortgage loans, is determined by segregating six mortgage pools into delinquency periods ranging from current through foreclosure. Each of these delinquency periods is assigned a probability of default. A specific loss given default based on a combination of external loss data from third-party databases and internal loss history is assigned for each mortgage pool. For each pool, the inherent loss is calculated using the above factors. The resulting probable loss factor is applied against the loan balance to determine the allowance held for each pool.

The qualitative framework is used to determine an additional allowance for each portfolio based on the factors below:

Internal risk factors:

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

Environmental risk factors:

- U.S. non-investment grade default rate;
- Unemployment rate; and
- Change in real GDP.

The allocation of the prior period allowance for loan losses and allowance for lending-related commitments has been restated to reflect the implementation of the qualitative allowance framework.

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

The credit rating assigned to each credit is a significant variable in determining the allowance. If each credit were rated one grade better, the allowance would have decreased by $68 million, while if each credit were rated one grade worse, the allowance would have increased by $109 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by $45 million, while if the loss given default were one rating better, the allowance would have decreased by $42 million. For impaired credits, if the net carrying value of the loans was 10% higher or lower, the allowance would have decreased or increased by $2 million, respectively.

Fair value of financial instruments

The guidance related to *Fair Value Measurement* included in Accounting Standards Codification ("ASC") 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. The standard also established a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Fair value – Securities

Level 1 – Securities – Recent quoted prices from exchange transactions are used for debt and equity securities that are actively traded on exchanges and for U.S. Treasury securities and U.S. Government securities that are actively traded in highly liquid over-the-counter markets.

Level 2 – Securities – For securities where quotes from recent transactions are not available for identical securities, we determine fair value primarily based on pricing sources with reasonable levels of price transparency. The pricing sources employ financial models or obtain comparisons to similar instruments to arrive at "consensus" prices.

Specifically, the pricing sources obtain recent transactions for similar types of securities (e.g., vintage, position in the securitization structure) and ascertain variables such as discount rate and speed of prepayment for the type of transaction and apply such variables to similar types of bonds. We view these as observable transactions in the current market place and classify such securities as Level 2.

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

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

The pricing sources discontinue pricing any specific security whenever they determine there is insufficient observable data to provide a good faith opinion on price. The pricing sources did not discontinue pricing for any securities in our investment securities portfolio at Dec. 31, 2011.

BNY Mellon obtains prices for its Level 1 and Level 2 securities from multiple pricing sources. We have designed controls to develop an understanding of the pricing sources' securities pricing methodology and have implemented specific internal controls over the valuation of securities.

As appropriate, we review the quality control procedures and pricing methodologies used by the pricing sources, including the process for obtaining prices provided by the pricing sources, their valuation methodology and controls for each class of security.

Prices received from pricing sources are subject to validation checks that help determine the completeness and accuracy of the prices. These validation checks are reviewed by management and, based on the results, may be subject to additional review and investigation. We also review securities with no price changes (stale prices) and securities with zero or 100% values.

BNY Mellon has a surveillance process in place to monitor the accuracy of prices provided by the pricing sources. We utilize a hierarchy that compares security prices obtained from multiple pricing sources against established thresholds. Discrepancies that fall outside of these thresholds are challenged with the pricing services and adjusted if necessary.

If further research is required, we review and validate these prices with the pricing sources. We also validate prices from pricing sources by comparing prices received to actual observed prices from actions such as purchases and sales, when possible.

Level 3 – Securities – Where we have used our own cash flow models and estimates to value securities, we classify them in Level 3 of the ASC 820 hierarchy. More than 99% of our securities are valued by pricing sources with reasonable levels of price transparency. Less than 1% of our securities are priced based on economic models and non-binding dealer quotes, and are included in Level 3 of the fair value hierarchy.

See Note 22 of the Notes to Consolidated Financial Statements for details of our securities by ASC 820 hierarchy level.

Fair value – Derivative financial instruments

Level 1 – Derivative financial instruments – Includes derivative financial instruments that are actively traded on exchanges, principally foreign exchange futures and forward contracts.

Level 2 – Derivative financial instruments – Includes the majority of our derivative financial instruments priced using internally developed models that use observable inputs for interest rates, pay-downs (both actual and expected), foreign exchange rates, option volatilities and other factors. The valuation process takes into consideration factors such as counterparty credit quality, liquidity and concentration concerns.

Level 3 – Derivative financial instruments – Certain interest rate derivatives that are highly structured require significant judgment and analysis to adjust the value determined by standard pricing models. These interest rate derivatives are included in Level 3 of the ASC 820 hierarchy and comprise less than 1% of our derivative financial instruments at fair value.

To test the appropriateness of the valuations, we subject the models to review and approval by an independent internal risk management function, benchmark the models against similar instruments and validate model estimates to actual cash transactions. In addition, we perform detailed reviews and analyses of profit and loss. Valuation adjustments are determined and controlled by a function independent of the area initiating the risk position. As markets and products develop and the pricing for certain products becomes more transparent, we refine our valuation methods. Any changes to the valuation models are reviewed by management to ensure the changes are justified.

To confirm that our valuation policies are consistent with exit prices as prescribed by ASC 820, we reviewed our derivative valuations using recent transactions in the marketplace, pricing services and the results of similar types of transactions. As a result of maximizing observable inputs as required by ASC 820, we reflect external credit ratings as well as observable credit default swap spreads for both ourselves as well as our counterparties when measuring the fair value of our derivative positions. Accordingly, the valuation of our derivative positions is sensitive to the current changes in our own credit spreads, as well as those of our counterparties.

For details of our derivative financial instruments by ASC 820 hierarchy level, see Note 22 of the Notes to Consolidated Financial Statements.

Fair value option

ASC 825 provides the option to elect fair value as an alternative measurement basis for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments which are not subject to fair value under other accounting standards. Under ASC 825, fair value is used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in fair value recognized in income. See

Note 23 of the Notes to Consolidated Financial Statements for additional disclosure regarding the fair value option.

Fair value – Judgments

In times of illiquid markets and financial stress, actual prices and valuations may significantly diverge from results predicted by models. In addition, other factors can affect our estimate of fair value, including market dislocations, incorrect model assumptions, and unexpected correlations. These valuation methods could expose us to materially different results should the models used or underlying assumptions be inaccurate. See "Basis of presentation" in Note 1 to the Notes to Consolidated Financial Statements.

Other-than-temporary impairment

The guidance included in ASC 320 defines the other-than-temporary impairment ("OTTI") model for investments in debt securities. Under this guidance, a debt security is considered impaired if its fair value is less than its amortized cost basis. An OTTI is triggered if (1) the intent is to sell the security, (2) the security will more likely than not have to be sold before the impairment is recovered, or (3) the amortized cost basis is not expected to be recovered. When an entity does not intend to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in accumulated other comprehensive income.

The determination of whether a credit loss exists is based on best estimates of the present value of cash flows to be collected from the debt security. Generally, cash flows are discounted at the effective interest rate implicit in the debt security at the time of acquisition. For debt securities that are beneficial interests in securitized financial assets and are not high credit quality, ASC 325 provides that cash flows be discounted at the current yield used to accrete the beneficial interest.

For each security in the investment securities portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an OTTI has occurred. For example, to determine if an unrealized loss on non-agency RMBS is other-than-temporary, we project total estimated defaults of the underlying assets (mortgages) and multiply that calculated amount by an estimate of realizable value upon sale of these assets in the marketplace (severity) in order to determine the projected collateral loss. We also evaluate the current credit enhancement underlying the bond to determine the impact on cash flows. If we determine that a given RMBS will be subject to a write-down or loss, we record the expected credit loss as a charge to earnings.

During 2011, the housing market continued to remain unstable. As a result, we adjusted our non-agency RMBS estimated default and loss severity assumptions to increase estimated defaults and decreased the amount we expect to receive to cover the value of the original loan. See Note 5 of the Notes to Consolidated Financial Statements for projected weighted-average default rates and loss severities for the 2007, 2006 and late-2005 non-agency RMBS and Grantor Trust portfolios at Dec. 31, 2011 and 2010. If actual delinquencies, default rates and loss severity assumptions worsen, we would expect additional impairment losses to be recorded in future periods.

Net securities gains in 2011 were $48 million compared with $27 million in 2010.

If we were to increase or decrease each of our loss severity and projected default rates by 100 basis points on each of the positions in our Alt-A, subprime and prime RMBS portfolios including the securities previously held by the Grantor Trust we established in connection with the restructuring of our investment securities portfolio in 2009, credit-related impairment charges on these securities would have increased by $10 million (pre-tax) or decreased by $9 million (pre-tax) at Dec. 31, 2011.

Goodwill and other intangibles

We initially record all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles and other intangibles, in accordance with ASC 805 *Business Combinations*. Goodwill, indefinite-lived intangibles and other intangibles are subsequently accounted for in accordance with ASC 350 *Intangibles – Goodwill and Other*. The initial measurement of goodwill and intangibles requires judgment concerning estimates of the fair value of the acquired assets and liabilities. Goodwill ($17.9 billion at Dec. 31, 2011) and indefinite-lived intangible assets ($2.7 billion at Dec. 31, 2011) are not amortized but subject to tests for impairment annually or more often if events or circumstances indicate it is more likely than not they may be impaired. Other intangible assets are amortized over their estimated useful lives and are

RFJN_EX 25_ 0000038

subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount.

BNY Mellon's three business segments include seven reporting units for which annual goodwill impairment testing is done in accordance with ASC 350. The Investment Management segment is comprised of two reporting units; the Investment Services segment is comprised of four reporting units; and one reporting unit is included in the Other segment.

The goodwill impairment test is performed in two steps. The first step compares the estimated fair value of the reporting unit with its carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. However, if the carrying amount of the reporting unit were to exceed its estimated fair value, a second step would be performed that would compare the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. A substantial goodwill impairment charge would not have a significant impact on our financial condition, but could have an adverse impact on our results of operations. In addition, due to regulatory restrictions, the Company's subsidiary banks could be restricted from distributing available cash to the Parent resulting in the Parent needing to issue additional long-term debt.

In the second quarter of 2011, we performed our annual goodwill test. The estimated fair values of each of these reporting units exceeded its carrying amount by at least 20% at that time.

GAAP also requires that an interim test be done whenever events or circumstances occur that may indicate that it is more likely than not that the fair value of any reporting unit might be less than its carrying value. The broad decline of stock prices throughout the U.S. stock market in the second half of 2011 also impacted the Company's stock price, which declined below the Company's net book value per share. As a result of this sustained decline in the second half of 2011, the Company performed an interim goodwill test during the fourth quarter of 2011.

For this interim test, the fair value of each of the Company's reporting units was estimated by the Company with the assistance of a third-party valuation specialist. Fair value was estimated using an income approach, based on discounted cash flows and, where appropriate, a market approach. Since public company multiples are on a marketable minority interest basis, we adjusted them in the impairment test to reflect the control rights and privileges in arriving at a multiple that reflects an appropriate control premium. Fair value of each of the Company's reporting units reflected a control premium of 35% to 40%.

Estimated cash flows used in the income approach were based on management's most recent projections available as of Oct. 31, 2011. The discount rates used under the income approach were based on the capital asset pricing model. The discount rate applied to estimated cash flows ranged from 10% to 12% and incorporated a 6% market equity risk premium, forward assumptions for risk-free rates, and other relevant assumptions. Estimated cash flows extend far into the future and, by their nature, are difficult to estimate over such an extended time-frame. Factors that may significantly affect the estimates include, among others, stock market price impacts affecting the market values of assets we manage, the effects of regulatory and legislative changes, increases to the cost of equity, specific industry or market sector conditions, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, and changes in interest rates.

The market approach used by the Company was primarily based on the "Guideline Public Company Method", which generally reflects publicly available information for comparable businesses, and incorporated earnings multiples from comparable publicly-traded companies in industries similar to that of the respective reporting unit. When appropriate, comparable multiples were selected based on the expected profitability of the reporting unit among other factors.

The fair value of each reporting unit exceeded its carrying value as of the date of the interim test. The fair values of six of the Company's reporting units were substantially in excess of the respective reporting unit's carrying value. The Asset Management reporting unit, with $7.7 billion of allocated goodwill, which is one of the two reporting units in the Investment Management segment, exceeded its carrying value by approximately 10%.

The fair value of the Asset Management reporting unit was estimated using both an income approach and a market approach. The Company estimated cash flows based on a compound annual operating income growth rate of approximately 16% through 2016 and 4.5% thereafter, discounted at 12.0%. In addition, the fair value of this reporting unit reflected a control premium of 35%. Fair value estimates based on the two methods exceeded the carrying value of the reporting unit. For this reporting unit, in the future, small changes in the assumptions could produce a non-cash goodwill impairment, which would have no effect on our regulatory capital ratios. In addition to the factors and assumptions previously discussed that could affect all of the Company's reporting units, certain money market fee waiver practices and changes in the level of assets under management could have an effect on Asset Management broadly, as well as the fair value of this reporting unit.

Key judgments in accounting for intangibles include useful life and classification between goodwill and indefinite-lived intangibles or other intangibles requiring amortization.

Indefinite-lived intangible assets are evaluated for impairment at least annually by comparing their fair values, estimated using discounted cash flow analyses, to their carrying values. Other amortizing intangible assets ($2.5 billion at Dec. 31, 2011) are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is initially based on undiscounted cash flow projections.

See Notes 1 and 7 of the Notes to Consolidated Financial Statements for additional information regarding goodwill, intangible assets and the annual and interim impairment testing.

Pension accounting

BNY Mellon has defined benefit pension plans covering approximately 24,500 U.S. employees and approximately 9,700 non-U.S. employees.

BNY Mellon has two qualified and several non-qualified defined benefit pension plans in the U.S. and several pension plans overseas. As of Dec. 31, 2011, the U.S. plans accounted for 84% of the projected benefit obligation. The pension expense for BNY Mellon plans was $93 million in 2011 compared with $47 million in 2010 and a pension credit of $17 million in 2009.

Effective Jan. 1, 2011, the U.S. pension plan was amended to reduce benefits earned by participants for service after 2010, and to freeze plan participation such that no new employees will enter the plan after Dec. 31, 2010. This change in the pension plan reduced pension expense by $40 million in 2011.

A net pension expense of approximately $140 million is expected to be recorded by BNY Mellon in 2012, assuming currency exchange rates at Dec. 31, 2011. The expected increase in pension expense in 2012 is primarily driven by the change in plan assumptions.

A number of key assumption and measurement date values determine pension expense. The key elements include the long-term rate of return on plan assets, the discount rate, the market-related value of plan assets and the price used to value stock in the ESOP. Since 2009, these key elements have varied as follows:

(dollars in millions, except per share amounts)	2012	2011	2010	2009
Domestic plans:				
Long-term rate of return on plan assets	**7.38%**	7.50%	8.00%	8.00%
Discount rate	**4.75**	5.71	6.21	6.38
Market-related value of plan assets *(a)*	**$3,763**	$3,836	$3,861	$3,651
ESOP stock price *(a)*	**$22.96**	$29.48	$27.97	$33.12
Net U.S. pension credit/(expense)	**N/A**	$ (54)	$ (15)	$ 32
All other net pension credit/(expense)	**N/A**	(39)	(32)	(15)
Total net pension credit/(expense)	**N/A**	$ (93)	$ (47)	$ 17

(a) *Market-related value of plan assets and ESOP stock price are for the beginning of the plan year. See "Summary of significant accounting and reporting policies" in Note 1 of the Notes to Consolidated Financial Statements.*

The discount rate for U.S. pension plans was determined after reviewing equivalent rates obtained by discounting the pension plans' expected cash flows using various high-quality, long-term corporate bond yield curves. We also reviewed the results of several models that matched bonds to our pension cash flows. After reviewing the various indices and models, we selected a discount rate of 4.75% as of Dec. 31, 2011.

The discount rates for foreign pension plans are based on high-quality corporate bond rates in countries that have an active corporate bond market. In those countries with no active corporate bond market, discount rates are based on local government bond rates plus a credit spread.

Our expected long-term rate of return on plan assets is based on anticipated returns for each applicable asset class. Anticipated returns are weighted for the expected allocation for each asset class. Anticipated returns are based on forecasts for prospective returns in the equity and fixed income markets, which should track the long-term historical returns for these markets.

We also consider the growth outlook for U.S. and global economies, as well as current and prospective interest rates.

The market-related value of plan assets also influences the level of pension expense. Differences between expected and actual returns are recognized over five years to compute an actuarially derived market-related value of plan assets.

Unrecognized actuarial gains and losses are amortized over the future service period of active employees if they exceed a threshold amount. BNY Mellon currently has $1.7 billion of unrecognized losses which are being amortized.

The annual impacts of hypothetical changes in the key elements on pension costs are shown in the table below.

Pension expense *(dollar amounts in millions, except per share amounts)*	Increase in pension expense		(Decrease) in pension expense	
Long-term rate of return on plan assets	(100) bps	(50) bps	50 bps	100 bps
Change in pension expense	$ 44	$ 22	$(22)	$ (44)
Discount rate	(50) bps	(25) bps	25 bps	50 bps
Change in pension expense	$ 36	$ 17	$(16)	$ (32)
Market-related value of plan assets	(20)%	(10)%	10%	20%
Change in pension expense	$ 164	$ 84	$(82)	$(161)
ESOP stock price	$ (10)	$ (5)	$ 5	$ 10
Change in pension expense	$ 14	$ 7	$ (6)	$ (12)

In addition to its pension plans, BNY Mellon has an Employee Stock Ownership Plan ("ESOP"). Benefits payable under The Bank of New York Mellon Corporation Pension Plan are offset by the equivalent value of benefits earned under the ESOP for employees who participated in the legacy Retirement Plan of The Bank of New York Company, Inc.

Consolidated balance sheet review

At Dec. 31, 2011, total assets were $325.3 billion compared with $247.3 billion at Dec. 31, 2010. The increase in consolidated total assets primarily resulted from growth in client deposits. Deposits totaled $219.1 billion at Dec. 31, 2011, and $145.3 billion at Dec. 31, 2010. At Dec. 31, 2011, total interest-bearing deposits were 48% of total interest-earning assets, compared with 59% at Dec. 31, 2010. Total assets averaged $291.1 billion in 2011, compared with $237.8 billion in 2010. The increase in average assets primarily reflects higher client deposit levels. Total deposits averaged $182.7 billion in 2011 and $139.4 billion in 2010.

At Dec. 31, 2011, we had $40.8 billion of liquid funds and $94.4 billion of cash (including $90.2 billion of overnight deposits with the Federal Reserve and other central banks) for a total of $135.2 billion of available funds. This compares with available funds of $77.6 billion at Dec. 31, 2010. Our percentage of liquid assets to total assets was 42% at Dec. 31, 2011, compared with 31% at Dec. 31, 2010. At Dec. 31, 2011, of our $40.8 billion in liquid funds, $36.3 billion were placed in interest-bearing deposits with large, highly-rated global financial institutions with a weighted average life to maturity of approximately 56 days. Of the $36.3 billion, $7.5 billion was placed with banks in the Eurozone.

Investment securities were $82.0 billion or 25% of total assets at Dec. 31, 2011, compared with $66.3 billion or 27% of total assets at Dec. 31, 2010. The increase primarily reflects a higher level of agency residential mortgage-backed securities, U.S. Treasury securities and sovereign securities, as well as an improvement in the unrealized gain of our investment securities portfolio.

Loans were $44.0 billion or 14% of total assets at Dec. 31, 2011, compared with $37.8 billion or 15% of total assets at Dec. 31, 2010. The increase in loan levels was primarily due to higher loans to broker-dealers.

Long-term debt increased to $19.9 billion at Dec. 31, 2011 from $16.5 billion at Dec. 31, 2010, primarily due to the issuance of $5.1 billion of senior medium-term notes, partially offset by $1.3 billion of senior and subordinated debt that matured in 2011 and $596 million of retail medium-term notes that were called in 2011.

Total shareholders' equity applicable to BNY Mellon was $33.4 billion at Dec. 31, 2011 and $32.4 billion at Dec. 31, 2010. The increase in total shareholders' equity primarily reflects earnings retention and an improvement in the valuation of our investment securities portfolio, offset in part by share repurchases.

BNY Mellon, through its involvement in the Government Securities Clearing Corporation ("GSCC"), settles government securities transactions on a net basis for payment and delivery through the Fed wire system. As a result, at Dec. 31, 2011, the assets and liabilities of BNY Mellon were reduced by $98 million for the netting of repurchase agreements and reverse repurchase agreement transactions executed with the same counterparty under standardized Master Repurchase Agreements. This netting is performed in accordance with the Financial Accounting Standards Board ("FASB") Interpretation No. 41 (ASC Topic 210-20) "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements."

Investment securities

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

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

Investment securities portfolio	Dec. 31, 2010	2011 change in	Dec. 31, 2011		Fair value as a % of		Ratings				
(dollars in millions)	Fair value	unrealized gain/(loss)	Amortized cost	Fair value	amortized cost *(a)*	Unrealized gain/(loss)	AAA/ AA-	A+/ A-	BBB+/ BBB-	BB+ and lower	Not rated
Watch list: *(b)*											
European floating rate notes *(c)*	$ 4,636	$ 84	$ 3,372	$ 3,025	89%	$(347)	71%	23%	6%	-%	-%
Non-agency RMBS	2,577	(59)	2,130	1,780	76	(350)	21	15	12	52	-
Other	331	(5)	246	264	34	18	3	1	22	23	51
Total Watch list *(b)*	7,544	20	5,748	5,069	78	(679)	50	19	8	20	3
Agency RMBS	20,157	226	26,890	27,493	102	603	100	-	-	-	-
U.S. Treasury securities	12,635	387	17,627	17,999	102	372	100	-	-	-	-
Sovereign debt/sovereign guaranteed *(d)*	8,585	108	11,724	11,881	101	157	100	-	-	-	-
Non-agency RMBS *(e)*	4,496	(401)	3,002	3,179	64	177	1	1	2	96	-
Commercial MBS	2,281	12	2,935	3,003	105	68	84	14	2	-	-
State and political subdivisions	629	62	2,787	2,806	101	19	76	19	3	-	2
Foreign covered bonds *(f)*	2,868	31	2,410	2,425	101	15	99	1	-	-	-
FDIC-insured debt	2,474	(34)	1,100	1,112	101	12	100	-	-	-	-
CLO	-	(25)	1,258	1,233	98	(25)	96	4	-	-	-
U.S. Government agency debt	1,005	28	932	958	103	26	100	-	-	-	-
Credit cards	517	(1)	393	397	101	4	16	84	-	-	-
Other	3,178	27	4,139	4,183	101	44	58	30	4	-	8
Total investment securities	$66,369 *(g)*	$ 440	$80,945	$81,738 *(g)*	101%	$ 793 *(g)*	89%	5%	1%	5%	-%

(a) *Amortized cost before impairments.*
(b) *The "Watch list" includes those securities we view as having a higher risk of impairment charges.*
(c) *Includes RMBS, commercial MBS and other securities. See page 37 for exposure by country.*
(d) *Primarily comprised of exposure to United Kingdom, France, Germany and Netherlands.*
(e) *These RMBS were included in the former Grantor Trust and were marked-to-market in 2009. We believe these RMBS would receive higher credit ratings if these ratings incorporated, as additional credit enhancement, the difference between the written-down amortized cost and the current face amount of each of these securities.*
(f) *Primarily comprised of exposure to Germany and Canada.*
(g) *Includes net unrealized gains on derivatives hedging securities available-for-sale of $60 million at Dec. 31, 2010 and net unrealized losses on derivatives hedging securities available-for-sale of $269 million at Dec. 31, 2011.*

RFJN_EX 25_ 0000042

The fair value of our investment securities portfolio was $81.7 billion at Dec. 31, 2011, compared with $66.4 billion at Dec. 31, 2010. The increase in the fair value of the investment securities portfolio primarily reflects a higher level of agency residential mortgage-backed securities, U.S. Treasury securities and sovereign securities, commensurate with our growth in deposits, as well as an increase in the unrealized gain of the securities portfolio. In 2011, we received $1.3 billion of paydowns and sold $480 million of sub-investment grade securities.

At Dec. 31, 2011, the total investment securities portfolio had an unrealized pre-tax gain of $793 million compared with $353 million at Dec. 31, 2010. The unrealized net of tax gain on our investment securities available-for-sale portfolio included in accumulated other comprehensive income was $417 million at Dec. 31, 2011, compared with $151 million at Dec. 31, 2010. The improvement in the valuation of the investment securities portfolio was driven by improved valuations of agency RMBS and U.S. Treasury securities, partially offset by declines in valuations of certain non-agency residential mortgage-backed securities.

In 2009, we established a Grantor Trust in connection with the restructuring of our investment securities portfolio. The Grantor Trust has been dissolved. The securities held in the former Grantor Trust are included in our investment securities portfolio and were marked down to approximately 60% of face value in 2009. At Dec. 31, 2011, these securities were trading above adjusted amortized cost with a total unrealized pre-tax gain of $177 million compared with $578 million at Dec. 31, 2010.

At Dec. 31, 2011, 89% of the securities in our portfolio were rated AAA/AA-, compared with 87% at Dec. 31, 2010.

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

At Dec. 31, 2011, we had $1.2 billion of accretable discount related to the restructuring of the investment securities portfolio. The discount related to these transactions had a remaining average life of approximately 3.9 years. The accretion of discount related to these securities increases net interest revenue and is recorded on a level yield basis. The discount accretion totaled $391 million in 2011 and $458 million in 2010.

Also, at Dec. 31, 2011, we had $1.7 billion of net amortizable purchase premium relating to investment securities with a remaining average life of approximately 4.1 years. For these securities, the amortization of net premium decreased net interest revenue and is recorded on a level yield basis. We recorded net premium amortization of $294 million in 2011 and $242 million in 2010.

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

Net securities gains (losses) *(in millions)*	2011	2010	2009
U.S. Treasury	$ 77	$ 15	$ -
Agency RMBS	8	15	-
Alt-A RMBS	(36)	(13)	(3,113)
Prime RMBS	(1)	-	(1,008)
Subprime RMBS	(21)	(4)	(322)
European floating rate notes	(39)	(3)	(269)
Sovereign debt	36	-	-
Home equity lines of credit	-	-	(205)
Commercial MBS	-	-	(89)
Grantor Trust	-	-	(39)
Credit cards	-	-	(26)
ABS CDOs	-	-	(23)
Other	24	17	(275)
Total net securities gains (losses)	$ 48	$ 27	$(5,369)

At Dec. 31, 2011, the investment securities portfolio includes $95 million of assets not accruing interest. These securities are held at market value.

The following table shows the fair value of the European floating rate notes by geographical location at Dec. 31, 2011. The unrealized loss on these securities was $347 million at Dec. 31, 2011, a decrease of 19% compared with $431 million at Dec. 31, 2010.

European floating rate notes at Dec. 31, 2011 *(a)* *(in millions)*	RMBS	Other	Total fair value
United Kingdom	$1,225	$259	$1,484
Netherlands	751	47	798
Ireland	182	23	205
Italy	155	-	155
Luxembourg	-	140	140
Australia	101	-	101
Germany	-	101	101
Spain	27	-	27
France	4	10	14
Total	$2,445	$580	$3,025

(a) 71% of these securities are in the AAA to AA- ratings category.

See Note 22 of the Notes to Consolidated Financial Statements for the detail of securities by level in the fair value hierarchy.

Equity investments

We also have equity investments categorized as other assets. Included in other assets are (parenthetical amounts indicate carrying values at Dec. 31, 2011): joint ventures and other equity investments ($1.6 billion), seed capital ($48 million), Federal Reserve Bank stock ($429 million), private equity investments ($122 million), and tax advantaged low-income housing investments ($477 million). For additional information on the fair value of our private equity investments and seed capital, see Note 22 of the Notes to Consolidated Financial Statements.

Our equity investment in Wing Hang Bank Limited ("Wing Hang"), which is located in Hong Kong, had a fair value of $499 million (book value of $399 million) based on its share price at Dec. 31, 2011. An agreement with certain other shareholders of Wing Hang prohibits the sale of this interest without their permission. In 2011, we elected to receive a stock dividend from Wing Hang with a value of $12 million (or 1.1 million shares). In 2010 and 2009, we received cash dividends from Wing Hang of $6 million and $2 million, respectively.

Private equity activities consist of investments in private equity funds, mezzanine financings, and direct equity investments. Consistent with our policy to focus on our core activities, we continue to reduce our exposure to these activities. The carrying and fair value of our private equity investments was $122 million at Dec. 31, 2011, down $21 million from $143 million at Dec. 31, 2010. At Dec. 31, 2011, private equity investments consisted of investments in private equity funds of $115 million, direct equity of less than $1 million, and leveraged bond funds of $7 million. Investment income was $18 million in 2011.

At Dec. 31, 2011, we had $22 million of unfunded investment commitments to private equity funds. If unused, the commitments expire between 2012 and 2015.

Commitments to private equity limited partnerships may extend beyond the expiration period shown above to cover certain follow-on investments, claims and liabilities, and organizational and partnership expenses.

Loans

Total exposure – consolidated	Dec. 31, 2011			Dec. 31, 2010		
(in billions)	Loans	Unfunded commitments	Total exposure	Loans	Unfunded commitments	Total exposure
Non-margin loans:						
Financial institutions	$11.1	$15.5	$26.6	$ 9.3	$15.8	$25.1
Commercial	1.3	16.3	17.6	1.6	18.8	20.4
Subtotal institutional	12.4	31.8	44.2	10.9	34.6	45.5
Wealth management loans and mortgages	7.3	1.5	8.8	6.5	1.8	8.3
Commercial real estate	1.5	1.5	3.0	1.6	1.6	3.2
Lease financing	2.6	-	2.6	3.1	0.1	3.2
Other residential mortgages	1.9	-	1.9	2.1	-	2.1
Overdrafts	4.8	-	4.8	6.0	-	6.0
Other	0.7	-	0.7	0.8	-	0.8
Subtotal non-margin loans	31.2	34.8	66.0	31.0	38.1	69.1
Margin loans	12.8	0.7	13.5	6.8	-	6.8
Total	$44.0	$35.5	$79.5	$37.8	$38.1	$75.9

At Dec. 31, 2011, total exposures were $79.5 billion, an increase of 5% from $75.9 billion at Dec. 31, 2010. This increase primarily reflects higher secured term loans to broker-dealers in the margin loans portfolio and higher other margin loans, partially offset by lower commercial exposure, overdrafts and lease financing exposure.

Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios make up 56% of our total lending exposure. Additionally, a substantial portion of our overdrafts relate to financial institutions and commercial customers.

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