Bank of New York Mellon CORP
Form 10-Q
August 08, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2008

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-52710

THE BANK OF NEW YORK MELLON CORPORATION

(Exact name of registrant as specified in its charter)

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

One Wall Street

New York, New York 10286

(Address of principal executive offices)(Zip Code)

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

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

Yes __ü__ No ______

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ______ No __ü__

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

Class	Outstanding as of June 30, 2008
Common Stock, $0.01 par value	1,146,070,295

Table of Contents

THE BANK OF NEW YORK MELLON CORPORATION

SECOND QUARTER 2008 FORM 10-Q

TABLE OF CONTENTS

Table of Contents

Introduction

On July 1, 2007, The Bank of New York Company, Inc. (The Bank of New York) and Mellon Financial Corporation (Mellon Financial) merged into The Bank of New York Mellon Corporation, (together with its consolidated subsidiaries, the Company), with the Company being the surviving entity. For accounting and financial reporting purposes, the merger was accounted for as a purchase of Mellon Financial. Financial results for periods subsequent to July 1, 2007 reflect the combined companies results. Financial results prior to July 1, 2007 reflect legacy The Bank of New York only.

The merger transaction resulted in The Bank of New York shareholders receiving 0.9434 shares of the Company s common stock for each share of The Bank of New York common stock outstanding on the closing date of the merger. All legacy The Bank of New York earnings per share and common share outstanding amounts in this Form 10-Q have been restated to reflect this exchange ratio. See page 61 for additional information.

In the second quarter of 2008, we revised our expected annual merger-related expense synergies, the targeted annual run rate for merger-related revenue synergies and expected merger and integration expenses. We now expect to realize annual merger-related expense synergies of $850 million by 2010 (previously $700 million) and our revised targeted run rate for merger-related revenue synergies is $325-425 million by 2011 (previously $250-400 million). Merger and integration expenses to combine the operations of The Bank of New York and Mellon Financial were approximately $146 million in the second quarter of 2008. Total merger and integration expenses are currently expected to be approximately $1.475 billion (previously $1.325 billion).

We are a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. We have $23.0 trillion in assets under custody and administration, more than $1.1 trillion in assets under management and service $12 trillion in outstanding debt.

Throughout this Form 10-Q, certain measures, which are noted, exclude certain items. We believe the presentation of this information enhances investors understanding of period-to-period results. In addition, these measures reflect the principal basis on which our

management monitors financial performance. See supplemental information explanation of non-GAAP financial measures.

In this Quarterly Report on Form 10-Q, references to our, we, us, the Company, and similar terms for periods prior to July 1, 2007 refer to The Bank of New York and references to our, we, us, the Company, and similar terms for periods on or after July 1, 2007 refer to The Bank of New York Mellon Corporation.

Reorganization of subsidiary banks

Effective July 1, 2008, we completed the process of consolidating and renaming our principal U.S. bank and trust company subsidiaries into two principal banks. This consolidation effort was an essential part of our overall merger integration process.

The two principal banks resulting from the consolidation of the entities, which mainly were U.S. banks and trust companies, are:

- The Bank of New York Mellon (the Bank), a New York state chartered bank, formerly named The Bank of New York , which houses our institutional businesses including Asset Servicing, Issuer Services, Treasury Services, Broker-Dealer and Advisor Services and the bank-advised business of Asset Management.
- BNY Mellon, National Association (BNY Mellon, N.A.), a nationally-chartered bank, formerly named Mellon Bank, N.A. , which houses our Wealth Management business. Currently, this bank contains only the legacy Mellon Financial wealth management business. The wealth management business of the legacy The Bank of New York is expected to be added to BNY Mellon, N.A. in the first quarter of 2009.

As part of the consolidation, the number of our U.S. trust companies was reduced to two The Bank of New York Mellon Trust Company, National Association and BNY Mellon Trust Company of Illinois. These companies house trust products and services across the U.S. Also concentrating on trust products and services will be BNY Mellon Trust of Delaware, a Delaware bank. Most asset management businesses, along with Pershing, will continue to be direct or indirect non-bank subsidiaries of The Bank of New York Mellon Corporation.

Table of Contents

Consolidated Financial Highlights (unaudited)

The Bank of New York Mellon Corporation

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended			Six months ended	
	June 30, 2008	March 31, 2008	June 30, 2008 [a]	**Sept. 30, 2007**	June 30, 2008 [a]
Reported results					
Net income	**$ 309**	$ 746	$ 445	**$ 1,055**	$ 879
Basic EPS [b]	**0.27**	0.66	0.62	**0.93**	1.24
Diluted EPS [b]	**0.27**	0.65	0.62	**0.92**	1.22
Continuing operations:					
Fee and other revenue	**$ 2,986**	$ 2,978	$ 1,580	**$ 5,964**	$ 3,055
Net interest revenue	**411**	767	452	**1,178**	879
Total revenue	**$ 3,397**	$ 3,745	$ 2,032	**$ 7,142**	$ 3,934
Income from continuing operations	**$ 302**	$ 749	$ 448	**$ 1,051**	$ 885
EPS from continuing operations [b]:					
Basic	**$ 0.27**	$ 0.66	$ 0.63	**$ 0.93**	$ 1.24
Diluted	**0.26**	0.65	0.62	**0.92**	1.23
Diluted excluding merger and integration expenses [c] [d]	**0.34**	0.72	0.66	**1.06**	1.28
Diluted excluding merger and integration expenses and the SILO charge [c] [d]	**0.67**	0.72	0.66	**1.39**	1.28
Diluted excluding merger and integration expenses, intangible amortization and the SILO charge [c] [d]	**0.74**	0.78	0.69	**1.52**	1.33
Return on tangible common equity *(annualized)*	**26.7%**	49.1%	37.3%	**38.8%**	38.2%
Return on tangible common equity excluding merger and integration expenses and the SILO charge *(annualized)* [c] [d]	**59.7%**	53.6%	39.8%	**56.4%**	39.9%
Return on common equity *(annualized)*	**4.3%**	10.2%	15.5%	**7.3%**	15.6%
Return on common equity excluding merger and integration expenses, intangible amortization and the SILO charge *(annualized)* [c] [d]	**12.0%**	12.2%	17.3%	**12.1%**	17.0%
Fee and other revenue as a percentage of total revenue (FTE)	**88%** [e]	79%	78%	**83%** [e]	78%
Annualized fee and other revenue per employee *(in thousands)* (based on average headcount)	**$ 280**	$ 281	$ 274	**$ 281**	$ 267
Non-U.S. percent of revenue (excluding the SILO charge) (FTE)	**35%**	33%	32%	**34%**	31%
Pre-tax operating margin (FTE)	**18%**	30%	32%	**24%**	33%
Pre-tax operating margin (FTE) excluding merger and integration expenses, intangible amortization and the SILO charge [c] [d]	**34%**	36%	36%	**35%**	36%
Net interest revenue (FTE)	**$ 415**	$ 773	$ 454	**$ 1,188**	$ 883
Net interest margin (FTE)	**1.16%** [e]	2.14%	2.01%	**1.65%** [e]	2.10%
Assets under management *(in billions)*	**$ 1,113**	$ 1,105	$ 153	**$ 1,113**	$ 153

Assets under custody and administration *(in trillions)*	**$**	**23.0**	$	23.1	$	16.7 (f)	**$**	**23.0**	$	16.7 (f)
Equity securities		**25%**		30%		32%		**25%**		32%
Fixed income securities		**75%**		70%		68%		**75%**		68%
Cross-border assets *(in trillions)*	**$**	**10.3**	$	10.0	$	7.4 (f)	**$**	**10.3**	$	7.4 (f)
Market value of securities on loan *(in billions)*	**$**	**588**	$	660	$	397	**$**	**588**	$	397
Average common shares and equivalents outstanding *(in thousands)* (b):										
Basic		**1,135,153**		1,134,280		713,187		**1,134,710**		711,675
Diluted		**1,146,886**		1,147,906		722,881		**1,147,386**		721,437

Table of Contents

Consolidated Financial Highlights (unaudited) (continued)

The Bank of New York Mellon Corporation

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended **June 30, 2008**	March 31, 2008	June 30, 2007 [(a)]	Six months ended **June 30, 2008**	June 30, 2007 [(a)]
Capital ratios					
Tier I capital ratio	**9.33%**	8.76%	8.09%	**9.33%**	8.09%
Total (Tier I plus Tier II capital ratio)	**12.90%**	12.14%	12.07%	**12.90%**	12.07%
Tangible common equity to assets ratio [(g)]	**4.31%**	4.14%	4.53%	**4.31%**	4.53%
Adjusted for the DTL on tax deductible goodwill [(h)]	**4.62%**	4.42%	4.90%	**4.62%**	4.90%
Return on average assets *(annualized)*	**0.62%**	1.50%	1.57%	**1.07%**	1.65%
Selected average balances					
Interest-earning assets	**$ 144,255**	$ 145,118	$ 90,557	**$ 144,687**	$ 84,847
Total assets	**$ 195,997**	$ 200,790	$ 114,323	**$ 198,394**	$ 108,218
Interest-bearing deposits	**$ 94,785**	$ 92,881	$ 53,610	**$ 93,833**	$ 48,763
Noninterest-bearing deposits	**$ 24,822**	$ 26,240	$ 15,334	**$ 25,531**	$ 15,120
Shareholders equity	**$ 28,507**	$ 29,551	$ 11,566	**$ 29,029**	$ 11,422
Other					
Employees	**43,100**	42,600	23,200	**43,100**	23,200
Dividends per share [(b)]	**$ 0.24**	$ 0.24	$ 0.23	**$ 0.48**	$ 0.47
Dividend yield *(annualized)*	**2.5%**	2.3%	2.1%	**2.5%**	2.1%
Closing common stock price per share [(b)]	**$ 37.83**	$ 41.73	$ 43.93	**$ 37.83**	$ 43.93
Market capitalization	**$ 43,356**	$ 47,732	$ 31,495	**$ 43,356**	$ 31,495
Book value per common share [(b)]	**$ 24.93**	$ 24.89	$ 16.50	**$ 24.93**	$ 16.50
Tangible book value per common share [(b)]	**5.00**	4.84	7.35	**5.00**	7.35
Period-end shares outstanding *(in thousands)* [(b)]	**1,146,070**	1,143,818	717,000	**1,146,070**	717,000

(a) Legacy The Bank of New York only.

(b) Per share data prior to July 1, 2007 are presented in post-merger share count terms. See page 61 for additional information.

(c) Calculated excluding pre-tax merger and integration expenses of $149 million, $126 million, $47 million, $275 million and $62 million, respectively, pre-tax intangible amortization expense of $124 million, $122 million, $29 million, $246 million and $57 million, respectively, and the SILO charge of $377 million in the second quarter of 2008.

(d) See Supplemental information Explanation of non-GAAP financial measures.

(e) Excluding the SILO charge, fee and other revenue as a percentage of total revenue was 79% in both the second quarter and first half of 2008 and the net interest margin was 2.21% and 2.17% in the second quarter and first half of 2008.

(f) Revised for Acquired Corporate Trust Business and harmonization adjustments.

(g) Adjusted for deferred tax liabilities of $1.96 billion, $1.99 billion, $149 million, $1.96 billion and $149 million, respectively, associated with tax deductible intangible assets.

(h) The Company s major credit rating agencies have notified us that in their computation of our capital adequacy, they will give credit for deferred tax liabilities (DTL) associated with tax deductible goodwill. The regulators are also considering giving credit for DTL in their capital computations. The DTL associated with tax deductible goodwill totaled $548 million at June 30, 2008, $516 million at March 31, 2008 and $445 million at June 30, 2007.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk.

Certain business terms used in this document are defined in the glossary included in our 2007 Annual Report on Form 10-K.

The following should be read in conjunction with the Consolidated Financial Statements included in this report. Investors should also read the section entitled Forward-looking Statements and Risk Factors on page 94.

Overview

Our businesses

The Bank of New York Mellon Corporation (NYSE: BK) is a global leader in providing a comprehensive array of services that enable institutions and individuals to manage and service their financial assets in more than 100 markets worldwide. We strive to be the global provider of choice for asset management and securities servicing and be recognized for our broad and deep capabilities, superior service and consistent outperformance versus peers. We have a long tradition of collaborating with clients to deliver innovative solutions through our core competencies: asset and wealth management, securities servicing and treasury services. Our extensive global client base includes a broad range of leading financial institutions, corporations, government entities, endowments/foundations and high-net-worth individuals.

The Company s businesses benefit from the global growth in financial assets. Our success is based on continuing to provide superior client service, strong investment performance and the highest fiduciary standards. We seek to deploy capital effectively to our businesses, to accelerate their long-term growth and deliver top-tier returns to our shareholders. Our long-term financial goals are focused on achieving superior total returns to shareholders by generating first quartile earnings per share growth over time relative to a group of 12 peer companies. Key components of this strategy include: providing the best client service versus peers (as measured through independent surveys); strong investment performance (relative to investment benchmarks); above median revenue growth (relative to peer

companies for each of our businesses); competitive margins; and positive operating leverage.

Based on the growth opportunities in our businesses, we expect that an increasing percentage of our revenue and income will be derived outside the U.S.

As measurements of efficiency, over time we expect to increase both our level of fee revenue per employee and maintain competitive pre-tax margins.

We believe that our businesses are compatible with our strategy and goals for the following reasons:

- Demand for our products and services is driven by market and demographic trends in the markets in which we compete. These trends include: growth in worldwide retirement and financial assets; the growth and concentration of the wealth segments; global growth in assets managed by financial institutions; and the globalization of the investment process.
- Many of our products complement one another.
- We are able to leverage sales, distribution and technology across our businesses, benefiting our clients and shareholders.
- The revenue generated by our businesses is principally fee-based.
- Our businesses generally do not require as much capital for growth as traditional banking.

We pursue our long-term financial goals by focusing on organic revenue growth, expense management, superior client service, successful integration of acquisitions and disciplined capital management.

We have established a Tier I capital target of 8% as our principal capital measure. We have also established a secondary target capital ratio of 5% for adjusted tangible common equity. The adjusted tangible common equity ratio reflects the impact of the merger with Mellon Financial and associated goodwill, intangibles and deferred tax liability. The goodwill and intangibles created in the merger have no economic impact but reduce tangible equity. For

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

a discussion of our capital ratios, see the Capital section of this Form 10-Q.

In addition to the merger with Mellon Financial, the following strategic actions had an impact on the second quarter and year-to-date financial results compared with prior periods:

In the second quarter of 2008:

We sold Mellon 1st Business Bank, National Association (M1BB) based in Los Angeles, California. The sale reduced loan and deposit levels by $1.1 billion and $2.8 billion, respectively. There was no gain or loss recorded on this transaction. This transaction reflects our focus on reducing non-core activities. Net income for M1BB was $29 million for full year 2007 and was primarily comprised of net interest revenue.

In the first quarter of 2008:

We acquired ARX Capital Management (ARX), a leading independent asset management business headquartered in Rio de Janeiro, Brazil. ARX has more than $2.8 billion in assets under management.

We sold a portion of the assets of Estabrook Capital Management LLC. This sale reduced our assets under management by $2.4 billion.

We sold the B-Trade and G-Trade execution businesses to BNY ConvergEx Group, LLC on Feb. 1, 2008. The B-Trade and G-Trade execution businesses have historically contributed approximately $50-60 million of revenue and $10-15 million of pre-tax income on a quarterly basis. These businesses were sold at book value with the potential for an earnout to be realized in the first half of 2009.

In the fourth quarter of 2007:

We completed the acquisition of the remaining 50% interest in ABN AMRO Mellon Global Securities Services B.V. (now known as BNY Mellon Asset Servicing, B.V.), which provides global custody and related services to institutions outside North America. The acquisition of BNY Mellon Asset Servicing, B.V. added $1.0 billion of loans (overdrafts that have been repaid), $3.5 billion of money market assets and $4.5 billion of deposits.

In December 2007, we consolidated the assets of our bank-sponsored conduit, Three Rivers Funding Corporation (TRFC).

In 2006:

We purchased the corporate trust business of JPMorgan Chase (Acquired Corporate Trust Business) from and sold our Retail Business to JPMorgan Chase on Oct. 1, 2006.

How we reported results

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

Certain amounts are presented on a fully taxable equivalent (FTE) basis. We believe that this presentation allows for comparison of amounts arising from both taxable and tax-exempt sources and is consistent with industry practice. The adjustment to an FTE basis has no impact on net income. In addition, results for the second and first quarters of 2008 and year-to-date 2008 reflect the results of The Bank of New York and Mellon Financial combined. Results for the second quarter and year-to-date 2007 include legacy The Bank of New York only.

In the first quarter of 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157 *Fair Value Measurements* (SFAS 157) and SFAS No. 159 *Fair Value Option* (SFAS 159). For a discussion of SFAS 157 and SFAS 159, see Note 12 and Note 13 in the Notes to Consolidated Financial Statements.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Second quarter 2008 highlights

We reported net income of $309 million, or $0.27 per share, and income from continuing operations of $302 million, or $0.26 per share in the second quarter of 2008. This compares to net income of $445 million, or $0.62 per share, and income from continuing operations of $448 million, or $0.62 per share, in the second quarter of 2007. The second quarter of 2008 included a charge relating to certain structured lease transactions (SILOs) of $380 million, or $0.33 per share, as well as merger and integration expenses of $149 million (pre-tax), or $0.08 per share. The second quarter of 2007 included merger and integration expenses of $47 million (pre-tax) or $0.04 per share. Excluding these amounts, earnings per share from continuing operations were $0.67 in the second quarter of 2008, $0.66 in the second quarter of 2007 and $0.72 in the first quarter of 2008.

Adjusting for the impact of the SILO charge, merger and integration expenses and intangible amortization ($124 million pre-tax), diluted earnings per share for the second quarter of 2008 were $0.74, which compares to $0.69 a year ago and $0.78 sequentially. See the Supplemental information section - Explanation of non-GAAP financial measures.

The results for the second quarter of 2008 included net pre-tax costs associated with the write-down of certain investments in our securities portfolio of $152 million and a pre-tax charge of $22 million for credit monitoring related to lost tapes in our Issuer and Treasury Services segments. The impact of these items decreased earnings per share by approximately $0.09.

Performance highlights for the second quarter of 2008 included:

- Assets under management totaled $1.1 trillion at June 30, 2008 compared with $153 billion at June 30, 2007. Assets under custody and administration totaled $23.0 trillion at June 30, 2008 compared with $16.7 trillion at June 30, 2007. Both increases primarily resulted from the merger with Mellon Financial.
- Asset and wealth management fees totaled $844 million in the second quarter of 2008 compared with $168 million in the second quarter of 2007. The increase reflects the merger with Mellon Financial as well as strength in money market flows and certain global equity strategies, partially offset by broad declines in the equity markets.

- Asset servicing revenue was $868 million in the second quarter of 2008 compared with $427 million in the second quarter of 2007. The increase was primarily due to the merger with Mellon Financial, higher foreign exchange revenue, the benefit of higher spreads in securities lending, new business activity and the fourth quarter of 2007 acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V., our former joint venture with ABN AMRO.
- Issuer services revenue was $444 million in the second quarter of 2008 compared with $367 million in the second quarter of 2007. The increase primarily reflects the merger with Mellon Financial as well as increases in Depositary Receipts and global corporate trust fees.
- Clearing and execution services fees totaled $270 million compared with $291 million in the second quarter of 2007. The decrease primarily reflects the sale of the B-Trade and G-Trade execution businesses in the first quarter of 2008, partially offset by money market and mutual fund fees.
- Revenue from foreign exchange and other trading activities was $308 million in the second quarter of 2008 compared with $117 million in the second quarter of 2007. The increase reflects the merger with Mellon Financial, the benefit of currency volatility and increased client volumes.
- Securities losses totaled $152 million in the second quarter of 2008 compared to a loss of $2 million in the second quarter of 2007. The second quarter of 2008 includes a $72 million loss related to Alt-A securities, a $50 million loss related to asset-backed securities (ABS) collateralized debt obligations (CDOs), and a $30 million loss related to securities backed by home equity lines of credit (HELOCs) in the portfolio of TRFC.

In the second quarter of 2008 we recorded a $380 million charge related to sale-in, lease-out (SILO) transactions. This charge includes $237 million, in accordance with FAS 13-2, related to revising the cash flows associated with the

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Company s SILO transactions, as well as $143 million for establishing interest reserves on associated tax benefits. The charge was prompted by recent federal court decisions in *BB&T Corp. v. United States* and *AWG Leasing Trust v. United States*, where the tax benefits from certain SILO and LILO transactions were denied. In the third quarter of 2008, we expect to deposit funds with the IRS to offset the accrual of interest on the disputed SILO transactions. The cost of funding the deposit, as well as the recalculation of the cash flows associated with the SILO transactions will result in a decrease in earnings per share of approximately $0.02 per share in both the second half of 2008 and full year 2009. We continue to believe our tax treatment of the SILO transactions was proper under the tax law as it existed at the time the tax benefits were reported.

On Aug. 6, 2008, the IRS announced a settlement program for taxpayers with LILO and SILO transactions. Although the Company has not yet received the offer, it expects that it will in the near future. If the offer is received, the Company will promptly evaluate its terms and financial impact. At this time it is unknown whether the offer will be acceptable to the Company.

Net interest revenue was $411 million in the second quarter of 2008 compared with $452 million in the second quarter of 2007. The decrease was due to the SILO charge recorded in the second quarter of 2008, primarily offset by the merger with Mellon Financial.

Noninterest expense was $2.758 billion in the second quarter of 2008 compared with $1.389 billion in the second quarter of 2007. The increase resulted from the merger with Mellon Financial, the impact of the annual merit salary increases for employees which became effective April 1, 2008, expense for credit monitoring related to lost tapes ($22 million) and higher incentives, benefits and professional, legal and other purchased services, as well as increases in merger and integration expenses of $102 million and intangible amortization expense of $95 million, partially offset by $131 million of merger-related synergies generated in the second quarter of 2008.

Revenue overview

The vast majority of our revenue consists of fee and other revenue, given our mix of businesses, with net interest revenue comprising the balance.

Fee and other revenue represented 88% of total revenue (79% excluding the SILO charge) on an FTE basis in the second quarter of 2008, compared with 78% in the second quarter of 2007.

Since fee and other revenue constitute the majority of our total revenue, we discuss it in greater detail by type of fee in the fee and other revenue and the business segments sections. In these sections, we note the more specific drivers of such revenue and the factors that caused the various types of fee and other revenue to increase or decline in the second quarter of 2008 compared with the second quarter of 2007. The business segments discussion combines, for each business segment, all types of fee and other revenue generated directly by that segment as well as fee and other revenue transferred between segments under revenue transfer agreements, with net interest revenue generated directly by or allocated to that segment. The discussion of revenue by business segment is fundamental to an understanding of the Company s results as it represents a principal measure by which management reviews the performance of our businesses compared with performance in prior periods, with our operating plan and with the performance of our competitors.

Net interest revenue comprised 12% of total revenue (21% excluding the SILO charge) on an FTE basis in the second quarter of 2008, compared with 22% in the second quarter of 2007. Net interest revenue is generated from a combination of loans, investment securities, interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements. For more information, see the section on net interest revenue.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Sector/segment overview

Sector/Segment	Primary types of revenue
Asset & Wealth Management sector	
Asset Management segment	Asset and wealth management fees from: Institutional clients Mutual funds Private clients Performance fees Distribution and servicing fees
Wealth Management segment	Wealth management fees from high-net-worth individuals and families, family offices and business enterprises, charitable gift programs, and foundations and endowments
Institutional Services sector	
Asset Servicing segment	Asset servicing fees, including: Institutional trust and custody fees Broker-dealer services Securities lending Foreign exchange
Issuer Services segment	Issuer services fees, including: Corporate trust Depositary receipts Employee investment plan services Shareowner services
Clearing Services segment	Clearing and execution services fees, including: Broker-dealer and Registered Investment Advisor services
Treasury Services segment	Treasury services fees, including: Global payment services

	Working capital solutions
	Financing-related fees
Other segment	Leasing operations
	The activities of Mellon United National Bank
	Corporate treasury activities
	Business exits
	Global markets and institutional banking services
	Merger and integration expenses

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Fee and other revenue

Fee and other revenue				**2Q08 vs.**		Year-to-date		**YTD08 vs.**
(dollars in millions unless otherwise noted)	**2Q08**	1Q08	2Q07 [(a)]	**1Q08**	**2Q07**	**2008**	2007 [(a)]	**YTD07**
Securities servicing fees:								
Asset servicing	**$ 868**	$ 897	$ 427	**(3)%**	**103%**	**$ 1,765**	$ 820	**115%**
Issuer services	**444**	376	367	**18**	**21**	**820**	686	**20**
Clearing and execution services	**270**	267	291	**1**	**(7)**	**537**	573	**(6)**
Total securities servicing fees	**1,582**	1,540	1,085	**3**	**46**	**3,122**	2,079	**50**
Asset and wealth management fees	**844**	842	168	**-**	**402**	**1,686**	319	**429**
Performance fees	**16**	20	21	**(20)**	**(24)**	**36**	35	**3**
Foreign exchange and other trading activities	**308**	259	117	**19**	**163**	**567**	244	**132**
Treasury services	**130**	124	55	**5**	**136**	**254**	105	**142**
Distribution and servicing	**110**	98	2	**12**	**N/M**	**208**	4	**N/M**
Financing-related fees	**50**	48	61	**4**	**(18)**	**98**	113	**(13)**
Investment income	**45**	23	39	**96**	**15**	**68**	75	**(9)**
Other	**53**	97	34	**(45)**	**56**	**150**	81	**85**
Total fee revenue (non-FTE)	**3,138**	3,051	1,582	**3**	**98**	**6,189**	3,055	**103**
Securities gains (losses)	**(152)**	(73)	(2)	**N/M**	**N/M**	**(225)**	-	**N/M**
Total fee and other revenue (non-FTE)	**$ 2,986**	$ 2,978	$ 1,580	**-%**	**89%**	**$ 5,964**	$ 3,055	**95%**
Fee and other revenue as a percentage of total revenue (FTE)	**88%** [(b)]	79%	78%			**83%** [(b)]	78%	
Market value of assets under management at period-end *(in billions)*	**$ 1,113**	$ 1,105	$ 153	**1%**	**627%**	**$ 1,113**	$ 153	**627%**
Market value of assets under custody or administration at period-end *(in trillions)*	**$ 23.0**	$ 23.1	$ 16.7	**-%**	**38%**	**$ 23.0**	$ 16.7	**38%**

(a) Legacy The Bank of New York only.

(b) Excluding the $377 million SILO charge, fee and other revenue as a percentage of total revenue was 79% in both the second quarter and first half of 2008.

N/M Not meaningful.

Fee and other revenue

The results of many of our businesses are influenced by client and market activities that vary by quarter. For instance, we experience seasonal increases in securities lending in the second quarter of the year, and depositary receipts reflecting global dividend distributions during the second and fourth quarters of the year.

The increase in fee revenue versus the year-ago quarter primarily reflects the merger with Mellon Financial, as well as new business. Sequentially, fee revenue increased $87 million reflecting seasonal increases in the Depositary Receipts business and an increase in foreign exchange and other trading activities, partially offset by a decrease in other revenue, lower performance fees, and lower securities lending revenue (included in asset servicing). The sequential decline in securities lending revenue reflects the narrowing of spreads on government securities from historically high levels, partially

offset by seasonality. Other revenue in the first quarter of 2008 included a $42 million gain associated with the initial public offering by VISA.

Securities servicing fees

The increase in securities servicing fees over the second quarter of 2007 reflects the merger with Mellon Financial, higher securities lending revenue, strong new business activity and the BNY Mellon Asset Servicing B.V. acquisition in the fourth quarter of 2007. Securities servicing fees were up sequentially reflecting a seasonal increase in the Depositary Receipts business, partially offset by lower securities lending revenue. See the Institutional Services Sector in Business segments review for additional details.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Asset and wealth management fees

Asset and wealth management fees increased from the second quarter of 2007 primarily due to the merger with Mellon Financial as well as strength in money market flows and certain global equity strategies, partially offset by broad declines in the equity markets and the prior loss of business at one of our investment boutiques. Sequentially, asset and wealth management fees increased $2 million as strong money market flows offset lower equity market levels. See the Asset and Wealth Management Sector in Business segments review for additional details regarding the drivers of asset and wealth management fees.

Total assets under management for the Asset and Wealth Management sector were $1.113 trillion at June 30, 2008, compared with $153 billion at June 30, 2007 and $1.105 trillion at March 31, 2008. The increase compared with June 30, 2007 resulted from the merger with Mellon Financial and strong money market flows partially offset by broad declines in the equity markets. The increase compared with March 31, 2008 primarily resulted from strong money market flows, partially offset by long-term outflows and lower equity market values.

Approximately 40% of asset and wealth management fees are generated in the Asset Management segment from managed mutual funds. These fees are based on the daily average net assets of each fund and the basis point management fee paid by that fund. Managed mutual fund fee revenue was $340 million in the second quarter of 2008 compared with $4 million in the second quarter of 2007 and $323 million in the first quarter of 2008. The increase compared with the second quarter of 2007 primarily reflects the merger with Mellon Financial. The increase compared with both prior periods also reflects strong money market flows.

Performance fees

Performance fees, which are reported in the Asset Management segment, are generally calculated as a percentage of a portfolio s performance in excess of a benchmark index or a peer group s performance. There is an increase/decrease in incentive expense with a related change in performance fees. Performance fees decreased $5 million compared

with the second quarter of 2007 and $4 million compared with the first quarter of 2008. The decrease compared with the second quarter of 2007 was primarily due to a lower level of performance fees generated from certain equity and alternative strategies, partially offset by the merger with Mellon Financial.

Foreign exchange and other trading activities

Foreign exchange and other trading activities revenue, which is reported primarily in the Asset Servicing segment, increased by $191 million, or 163%, to $308 million compared with the second quarter of 2007, and increased 19% (unannualized) compared with the first quarter of 2008. The increase compared to the second quarter of 2007 was due to the merger with Mellon Financial and also reflected the benefit of increased volatility as well as higher client volumes. The increase compared with the first quarter of 2008 primarily reflects the benefit of increased volatility and higher client volumes, as well as the negative impact of the adoption of SFAS 157 on the valuation of the interest rate derivatives portfolio in the first quarter of 2008.

Treasury services

Treasury services fees, which are primarily reported in the Treasury Services segment, includes fees related to funds transfer, cash management and liquidity management. Treasury services fees increased $75 million from the second quarter of 2007 reflecting the merger with Mellon Financial, as well as higher global payments and cash management fees due primarily to higher client volumes.

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 Asset Management segment. These fees, which include 12b-1 fees, fluctuate with the overall level of net sales, the relative mix of sales between share classes and the funds market values.

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

The $108 million increase in distribution and servicing fee revenue in the second quarter of 2008 compared with the second quarter of 2007 primarily reflects the merger with Mellon Financial. The $12 million increase compared with the first quarter of 2008 reflects strong money market flows, as well as redemptions in certain international funds. The impact of distribution and servicing fees on income in any one period can be more than offset by distribution and servicing expense paid to other financial intermediaries to cover their 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 Treasury Services segment, include capital markets fees, loan commitment fees and credit-related trade fees. Financing-related fees decreased $11 million from the second quarter of 2007 and were relatively flat sequentially. The decrease from the second quarter of 2007 reflects a lower level of credit-related activities consistent with our strategic direction.

Investment income

Investment income, which is primarily reported in the Other and Asset Management segments, includes the gains and losses on private equity investments and seed capital investments, income from insurance contracts, and lease residual gains and losses. The increase in investment income from the second quarter of 2007 primarily resulted from the merger with Mellon Financial partially offset by lower

private equity investment income. The sequential increase reflects higher market value of seed capital investments. Seed capital revenue was $3 million in the second quarter of 2008 compared to a loss of $19 million in the first quarter of 2008. Private equity investment income was $3 million in the second quarter of 2008, down from $7 million in the first quarter of 2008 and $18 million in the second quarter of 2007.

Other revenue

Other revenue is comprised of asset-related gains, equity investment income, expense reimbursements from joint ventures, merchant card fees, net economic value payments and other transactions. Asset-related gains include loan, real estate dispositions and other assets. Equity investment income primarily reflects our proportionate share of the income from our investment in Wing Hang Bank Limited. Expense reimbursements from joint ventures relate to expenses incurred by the Company on behalf of joint ventures. Other transactions primarily include low income housing, other investments and various miscellaneous revenues.

Other revenue increased compared to the second quarter of 2007 reflecting higher asset related gains and expense reimbursements from joint ventures, partially offset by lower economic value payments related to the Acquired Corporate Trust Business. The decrease from the first quarter of 2008 reflects the $42 million gain associated with the initial public offering by VISA recorded in the first quarter of 2008. The breakdown of other revenue categories is shown in the following table:

Other revenue				Year-to-date	
(in millions)	**2Q08**	1Q08	2Q07[(a)]	**2008**	2007 [(a)]
Asset-related gains	**$ 23**	$ 46	$ 5	**$ 69**	$ 9
Equity investment income	**13**	12	12	**25**	25
Expense reimbursements from joint ventures	**8**	9	-	**17**	-
Merchant card fees	**3**	6	-	**9**	-

Net economic value payments	**-**	2	13	**2**	37
Other	**6**	22	4	**28**	10
Total other revenue	**$ 53**	$ 97	$ 34	**$ 150**	$ 81

(a) Legacy The Bank of New York only.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Securities gains (losses)

Securities losses totaled $152 million in the second quarter of 2008 compared to a loss of $2 million in the second quarter of 2007 and losses of $73 million in the first quarter of 2008. The losses in the second quarter of 2008 primarily reflected write-downs related to Alt-A securities ($72 million), ABS CDOs ($50 million) and our HELOC portfolio ($30 million). The losses in the first quarter of 2008 primarily reflected $24 million related to ABS CDOs, $22 million related to structured investment vehicles (SIVs) and $28 million in the HELOC portfolio. See the Consolidated balance sheet review for further information on the investment securities portfolio.

Year-to-date 2008 compared with year-to-date 2007

Fee revenue for the first six months of 2008 totaled $6.189 billion, an increase of 103% compared with the first six months of 2007. This increase primarily reflects the merger with Mellon Financial, higher securities servicing fees and foreign exchange and other trading activities. The increase in securities servicing fees reflects strong securities lending revenue and strong new business activity, partially offset by lower clearing and execution services revenue as a result of the sale of the B-Trade and G-Trade execution businesses. Foreign exchange and other trading activities increased primarily due to the merger with Mellon Financial, the benefit of significant increases in currency volatility as well as higher client volumes.

Net interest revenue

Net interest revenue				**2008 vs.**		Year-to-date		
(dollar amounts in millions)	**2Q08**	1Q08	2Q07 [(a)]	**1Q08**	**2Q07**	**2008**	2007 [(a)]	**YTD08 vs. YTD07**
Net interest revenue (non-FTE)	**$ 411**	$ 767	$ 452	**(46)%**	**(9)%**	**$ 1,178**	$ 879	**34%**
Tax equivalent adjustment	**4**	6	2	**N/M**	**N/M**	**10**	4	**N/M**
Net interest revenue (FTE)	**415**	773	454	**(46)**	**(9)**	**1,188**	883	**35**
SILO charge	**377**			**N/M**	**N/M**	**377**		**N/M**
Net interest revenue (FTE) - non-GAAP	**$ 792**	$ 773	$ 454	**2%**	**74%**	**$ 1,565**	$ 883	**77%**
Net interest margin (FTE)	**1.16%**	2.14%	2.01%	**(98) bps**	**(85) bps**	**1.65%**	2.10%	**(45) bps**
Net interest margin (FTE) - non-GAAP	**2.21**	2.14	2.01	**7**	**20**	**2.17**	2.10	**7**

(a) Legacy The Bank of New York only.
N/M - Not meaningful.

bps - basis points.

Net interest revenue on an FTE basis totaled $415 million in the second quarter of 2008, and included a $377 million charge related to SILOs. Net interest revenue on an FTE basis totaled $454 million in the second quarter of 2007 and $773 million in the first quarter of 2008. The net interest margin was 1.16% in the second quarter of 2008, compared with 2.01% in the second quarter of 2007 and 2.14% in the first quarter of 2008.

The decrease in net interest revenue compared with the second quarter of 2007 and first quarter of 2008 reflects the SILO charge recorded in the second quarter of 2008. Excluding the SILO charge, the increase compared with the prior year period reflects the merger with Mellon Financial, wider spreads on

investment securities and a higher level of average interest-earning assets driven by an increase in interest-bearing deposits resulting primarily from growth in the Securities Servicing businesses. The decrease in net interest revenue compared with the first quarter of 2008 primarily reflects the SILO charge. Excluding the SILO charge, the sequential increase reflects higher net interest revenue resulting from wider spreads on investment securities.

Average interest-earning assets were $144 billion in the second quarter of 2008 compared with $145 billion sequentially and $91 billion in the second quarter of 2007. The increase in interest-earning assets compared with the second quarter of 2007 reflects the merger with Mellon Financial as well as

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

the impact of a higher level of interest-bearing deposits driven by higher client activity primarily in our Securities Servicing businesses.

The net interest margin decreased 85 basis points year-over-year and 98 basis points sequentially. Both decreases principally reflect the SILO charge. Excluding the SILO charge, the net interest margin increased 20 basis points compared with the second quarter of 2007 and 7 basis points compared with the first quarter of 2008. Both increases primarily reflect the benefit of wider spreads on investment securities.

Year-to-date 2008 compared with year-to-date 2007

Net interest revenue on an FTE basis totaled $1.188 billion in the first six months of 2008, an increase of 35% compared with $883 million in the first six months of 2007. The net interest margin was 1.65% in the first half of 2008 and 2.10% in the first half of 2007. The decrease in the first six months of 2008 compared with the first six months of 2007 was primarily due to the merger with Mellon Financial as well as wider spreads on the investment securities portfolio, partially offset by the SILO charge. Excluding the SILO charge, net interest revenue (FTE) was $1.565 billion, an increase of 77% compared with the first six months of 2007 and the net interest margin was 2.17%, an increase of 7 basis points.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

AVERAGE BALANCES AND INTEREST RATES

	Quarter ended					
	June 30, 2008		March 31, 2008		June 30, 2007 [a]	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates	Average balance	Average rates
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign)	**$ 43,361**	**3.82%**	$ 38,658	4.28%	$ 20,558	4.54%
Federal funds sold and securities under resale agreements	**6,744**	**2.21**	8,199	3.15	5,846	5.25
Margin loans	**5,802**	**3.36**	5,258	4.47	5,563	6.31
Non-margin loans:						
Domestic offices	**28,068**	**(1.56)** [b]	29,357	4.49	19,170	5.04
Foreign offices	**13,281**	**3.97**	13,881	4.55	12,584	5.70
Total non-margin loans	**41,349**	**0.22** [b]	43,238	4.51	31,754	5.30
Securities:						
U.S. government obligations	**552**	**3.05**	430	3.48	87	4.90
U.S. government agency obligations	**11,098**	**4.27**	11,333	4.74	2,775	5.20
Obligations of states and political subdivisions	**676**	**5.74**	703	7.58	77	8.65
Other securities	**32,755**	**5.22**	35,840	5.26	22,572	5.22
Trading securities	**1,918**	**3.74**	1,459	5.36	1,325	4.27
Total securities	**46,999**	**4.92**	49,765	5.16	26,836	5.17
Total interest-earning assets	**144,255**	**3.05** [b]	145,118	4.59	90,557	5.15
Allowance for credit losses	**(310)**		(311)		(290)	
Cash and due from banks	**5,399**		5,831		2,631	
Other assets	**46,653**		50,152		21,425	
Total assets	**$ 195,997**		$ 200,790		$ 114,323	
Liabilities and shareholders equity						
Interest-bearing liabilities:						
Money market rate accounts	**$ 13,590**	**0.96%**	$ 13,296	1.63%	$ 6,406	2.87%
Savings	**980**	**1.74**	913	2.33	423	1.92
Certificates of deposit of $100,000 & over	**2,116**	**2.71**	2,313	4.09	2,679	5.23
Other time deposits	**6,458**	**1.86**	8,445	2.42	684	5.36
Foreign offices	**71,641**	**2.22**	67,914	2.85	43,418	3.64
Total interest-bearing deposits	**94,785**	**2.02**	92,881	2.66	53,610	3.64
Federal funds purchased and securities under repurchase agreements	**4,338**	**1.05**	4,750	2.18	1,377	4.79
Other borrowed funds	**2,840**	**3.21**	3,343	3.50	2,321	4.22
Payables to customers and broker-dealers	**5,550**	**1.32**	4,942	1.94	5,154	3.63
Long-term debt	**16,841**	**3.58**	17,125	4.51	10,042	5.38

Total interest-bearing liabilities	**124,354**	**2.20**	123,041	2.90	72,504	3.92
Total noninterest-bearing deposits	**24,822**		26,240		15,334	
Other liabilities	**18,314**		21,958		14,919	
Total liabilities	**167,490**		171,239		102,757	
Shareholders equity	**28,507**		29,551		11,566	
Total liabilities and shareholders equity	**$ 195,997**		$ 200,790		$ 114,323	
Net interest margin - Taxable equivalent basis		**1.16 %** [(b)]		2.14%		2.01%

(a) Legacy The Bank of New York only.

(b) Second quarter of 2008 includes the impact of the SILO charge. Excluding this charge, the domestic offices non-margin loan rate would have been 3.82%, the total non-margin loan rate would have been 3.87%, the interest-earning assets rate would have been 4.10% and the net interest margin would have been 2.21% for the second quarter of 2008.

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

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

AVERAGE BALANCES AND INTEREST RATES

	Year-to-date			
	2008		2007 [(a)]	
	Average	**Average**	Average	Average
(dollar amounts in millions)	**balance**	**rates**	balance	rates
Assets				
Interest-earning assets:				
Interest-bearing deposits with banks (primarily foreign)	**$ 41,010**	**4.04%**	$ 17,072	4.47%
Federal funds sold and securities under resale agreements	**7,471**	**2.73**	5,144	5.24
Margin loans	**5,529**	**3.89**	5,482	6.32
Non-margin loans:				
Domestic offices	**29,064**	**1.56** *(b)*	19,200	5.09
Foreign offices	**13,230**	**4.28**	11,955	5.77
Total non-margin loans	**42,294**	**2.41** *(b)*	31,155	5.35
Securities				
U.S. government obligations	**491**	**3.24**	87	4.92
U.S. government agency obligations	**11,216**	**4.51**	2,840	5.14
Obligations of states and political subdivisions	**689**	**6.68**	81	8.43
Other securities	**34,298**	**5.24**	20,951	5.25
Trading securities	**1,689**	**4.44**	2,035	4.75
Total securities	**48,383**	**5.05**	25,994	5.21
Total interest-earning assets	**144,687**	**3.83** *(b)*	84,847	5.20
Allowance for credit losses	**(311)**		(288)	
Cash and due from banks	**5,615**		2,528	
Other assets	**48,403**		21,131	
Total assets	**$ 198,394**		$ 108,218	
Liabilities and shareholders equity				
Interest-bearing liabilities:				
Money market rate accounts	**$ 13,443**	**1.29%**	$ 6,288	2.92%
Savings	**947**	**2.02**	420	1.89
Certificates of deposit of $100,000 & over	**2,215**	**3.43**	2,905	5.34
Other time deposits	**7,452**	**2.18**	634	5.28
Foreign offices	**69,776**	**2.53**	38,516	3.66
Total interest-bearing deposits	**93,833**	**2.34**	48,763	3.67
Federal funds purchased and securities under repurchase agreements	**4,544**	**1.64**	1,451	4.89
Other funds borrowed	**3,091**	**3.36**	2,098	3.63
Payables to customers and broker-dealers	**5,247**	**1.61**	4,952	3.61
Long-term debt	**16,983**	**4.08**	9,468	5.41

Total interest-bearing liabilities	**123,698**	**2.54**	66,732	3.95
Total noninterest-bearing deposits	**25,531**		15,120	
Other liabilities	**20,136**		14,944	
Total liabilities	**169,365**		96,796	
Shareholders equity	**29,029**		11,422	
Total liabilities and shareholders equity	**$ 198,394**		$ 108,218	
Net interest margin - Taxable equivalent basis		**1.65 %** (b)		2.10%

(a) Legacy The Bank of New York only.

(b) Year-to-date 2008 includes the impact of the SILO charge. Excluding this charge, the domestic offices non-margin loan rate would have been 4.16%, the total non-margin loan rate would have been 4.19%, the interest-earning assets rate would have been 4.35% and the net interest margin would have been 2.17% for the first half of 2008.

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

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Noninterest expense

Noninterest expense

(dollar amounts in millions)	**2Q08**	1Q08	2Q07 [(a)]	**2Q08 vs. 1Q08**	**2Q08 vs. 2Q07**	**Year-to-date 2008**	Year-to-date 2007 [(a)]	**YTD08 vs. YTD07**
Staff:								
Compensation	**$ 804**	$ 795	$ 472	**1%**	**70%**	**$ 1,599**	$ 931	**72%**
Incentives	**386**	366	171	**5**	**126**	**752**	318	**136**
Employee benefits	**201**	191	109	**5**	**84**	**392**	223	**76**
Total staff	**1,391**	1,352	752	**3**	**85**	**2,743**	1,472	**86**
Professional, legal and other purchased services	**280**	252	132	**11**	**112**	**532**	262	**103**
Net occupancy	**139**	129	81	**8**	**72**	**268**	160	**68**
Distribution and servicing	**131**	130	4	**1**	**N/M**	**261**	8	**N/M**
Software	**88**	79	57	**11**	**54**	**167**	111	**50**
Furniture and equipment	**79**	79	54		**46**	**158**	104	**52**
Business development	**75**	66	37	**14**	**103**	**141**	67	**110**
Sub-custodian	**62**	61	42	**2**	**48**	**123**	76	**62**
Communications	**33**	32	23	**3**	**43**	**65**	42	**55**
Clearing and execution	**21**	9	44	**N/M**	**(52)**	**30**	81	**(63)**
Other	**186**	182	87	**2**	**114**	**368**	159	**131**
Subtotal	**2,485**	2,371	1,313	**5**	**89**	**4,856**	2,542	**91**
Amortization of intangible assets	**124**	122	29	**2**	**N/M**	**246**	57	**N/M**
Merger and integration expenses:								
The Bank of New York Mellon Corporation	**146**	121	35	**21**	**N/M**	**267**	39	**N/M**
Acquired Corporate Trust Business	**3**	5	12	**(40)**	**(75)**	**8**	23	**(65)**
Total noninterest expense	**$ 2,758**	$ 2,619	$ 1,389	**5%**	**99%**	**$ 5,377**	$ 2,661	**102%**
Total staff expense as a percent of total revenue (FTE)	**41%**	36%	37%			**38%**	37%	
Employees at period-end	**43,100**	42,600	23,200	**1%**	**86%**	**43,100**	23,200	**86%**

(a) Legacy The Bank of New York only.
N/M - Not meaningful.

Total noninterest expense increased compared with both the second quarter of 2007 and first quarter of 2008. Noninterest expense in the second quarter of 2008 included $25 million related to the April 1, 2008 annual merit salary increase for employees and $22 million related to a credit monitoring charge for lost tapes. The increase compared with the second quarter of 2007 resulted primarily from the merger with Mellon Financial, the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing B.V., the previously mentioned merit increase and the credit monitoring charge, partially offset by the sale of the B-Trade and G-Trade execution businesses to BNY ConvergEx.

The sequential quarter increase reflects:

- the April 1, 2008 merit increase;
- the credit monitoring charge associated with the lost tapes;
- expense rebates received in the first quarter of 2008;
- software impairment costs; and
- higher business development costs, incentives, benefits and professional, legal and other purchased services expense.

The increase in merger and integration expense and intangible amortization expense compared to the second quarter of 2007 resulted from the merger with Mellon Financial.

Staff expense

Given our mix of fee-based businesses, which are staffed with high quality professionals, staff expense comprised approximately 56% of total noninterest expense, excluding merger and integration and intangible amortization expense, in the second quarter of 2008.

Staff expense is comprised of:

- compensation expense, which includes:
  - base salary expense, primarily driven by headcount;

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

- the cost of temporary help 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 the second quarter of 2007 reflects a net increase in headcount associated with the Mellon Financial merger, the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing B.V., the April 1, 2008 merit increase, as well as higher incentives and benefits expense, partially offset by the sale of the B-Trade and G-Trade execution businesses. The increase in benefits expense includes higher pension costs primarily due to the accrual of additional benefits for employees past normal retirement age.

Non-staff expense

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

Non-staff expense excluding merger and integration expenses and intangible amortization expense totaled $1.094 billion in the second quarter of 2008 compared with $1.019 billion in the first quarter of 2008 and $561 million in the second quarter of 2007. Non-staff expenses were impacted by the merger with Mellon Financial as well as the following activities:

- A $127 million increase in distribution and servicing expense compared with the second quarter of 2007. Distribution and servicing expense represents amounts paid to other financial intermediaries to cover their costs for

distribution (marketing support, administration and record keeping) and servicing of mutual funds. Generally, increases in distribution and servicing expense reflect higher net sales. Distribution and servicing expense in any one year is not expected to be fully recovered by higher distribution and servicing revenue; rather it contributes to future growth in mutual fund management revenue reflecting the growth in mutual fund assets generated through certain distribution channels.

- The second quarter of 2008 versus the second quarter of 2007 increase in professional, legal and other purchased services, net occupancy, sub-custodian, business development, furniture and equipment, software and communications expense reflect business growth, strategic initiatives, and software impairment costs incurred in the second quarter of 2008.
- The sequential increase in clearing and execution expense reflects expense rebates received in the first quarter of 2008.
- The increase in other expense compared with both prior periods reflects organic business growth, and also includes a $22 million expense associated with a credit monitoring charge for lost tapes in the second quarter of 2008. The first quarter of 2008 included a $25 million write-down of seed capital investments related to a formerly affiliated hedge fund manager. Further analysis is currently being performed on the lost tapes which may result in additional expenses in the third quarter of 2008.

In the second quarter of 2008, we incurred $146 million of merger and integration expenses related to the merger with Mellon Financial, comprised of the following:

- Integration/conversion costs including consulting, system conversions and staff ($94 million);

Personnel related costs includes severance, retention, relocation expenses, accelerated vesting of stock options and restricted stock expense ($45 million); and

One-time costs includes facilities related costs, asset write-offs, vendor contract modifications, rebranding and net gain (loss) on disposals ($7 million).

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

We also incurred $3 million of merger and integration expense associated with the Acquired Corporate Trust Business in the second quarter of 2008.

Amortization of intangible assets was $124 million in the second quarter of 2008 compared with $122 million in the first quarter of 2008 and $29 million in the second quarter of 2007. The increase compared with the second quarter of 2007 primarily reflects the merger with Mellon Financial.

Year-to-date 2008 compared with year-to-date 2007

Noninterest expense in the first six months of 2008 increased $2.716 billion, or 102%, compared with the first six months of 2007. The increase primarily resulted from the merger with Mellon Financial, the acquisition of the remaining 50% interest in the joint venture with ABN AMRO, the April 1, 2008 merit increase, and the credit monitoring charge for lost tapes, partially offset by the sale of the B-Trade and G-Trade execution businesses.

Income taxes

On a continuing operations basis, the effective tax rate for the second quarter of 2008 was 50.8%, compared with 31.9% in the second quarter of 2007 and 32.5% in the first quarter of 2008. The higher effective tax rate in the second quarter of 2008 compared with the first quarter of 2008 reflects the SILO charge. For additional information regarding the SILO charge, see Note 15, Commitments and contingent liabilities. Excluding the SILO charge and merger and integration expense, the effective tax rate was 32.4% in the second quarter of 2008 compared with 31.9% in the second quarter of 2007 and 33.3% in the first quarter of 2008.

The effective tax rate in the third quarter of 2008 is expected to be approximately 33%.

Credit loss provision and net charge-offs

Credit loss provision and net charge-offs	**Quarter ended**			**Six months ended**	
(in millions)	**June 30, 2008**	March 31, 2008	June 30, 2007 [(a)]	**June 30, 2008**	June 30, 2007 [(a)]
Provision for credit losses	**$ 25**	$ 16	$ (15)	**$ 41**	$ (30)
Net (charge-offs) recoveries:					
Commercial	**$ (12)**	$ (6)	$ -	**$ (18)**	$ (5)
Leasing	**1**	-	5	**1**	13
Foreign	**-**	(5)	-	**(5)**	-
Other	**(2)**	(2)	-	**(4)**	-

Total net (charge-offs) recoveries	**$ (13)**	$ (13)	$ 5	**$ (26)**	$ 8

(a) Legacy The Bank of New York only.

The provision for credit losses was $25 million in the second quarter of 2008, compared with $16 million in the first quarter of 2008 and a credit of $15 million in the second quarter of 2007. The increase in allowance for credit losses in the second quarter of 2008 compared with the second quarter of 2007 primarily reflects the increase in

nonperforming loans. We recorded a net charge-off of $13 million in the second quarter of 2008, compared with a net charge-off of $13 million in the first quarter of 2008 and a net recovery of $5 million in the second quarter of 2007. Net charge-offs in the second quarter of 2008 primarily reflect commercial real estate charge-offs.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Business segments review

We have an internal information system that produces performance data for our seven business segments along product and service lines.

Business segments accounting principles

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

The accounting policies of the business segments are the same as those described in Note 1 to the Consolidated Financial Statements contained in the Company s 2007 Annual Report on Form 10-K except other fee revenue and net interest revenue differ from the amounts shown in the Consolidated Income Statement because amounts presented in Business segments are on an FTE basis. Segment results are subject to reclassification whenever improvements are made in the measurement principles or when organizational changes are made.

In the second quarter of 2008, we moved the financial results of M1BB and Mellon United National Bank (MUNB) to the Other segment from the Wealth Management segment. This change reflects the sale of MIBB in June 2008, as well as our focus on reducing non-core activities. Historical segment results for Wealth Management and Other have been restated to reflect these changes.

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

We provide segment data for seven segments with certain segments combined into sectors groupings as shown below:

- Asset and Wealth Management sector
  - Asset Management segment
  - Wealth Management segment
- Institutional Services sector
  - Asset Servicing segment
  - Issuer Services segment
  - Clearing Services segment
  - Treasury Services segment
- Other segment

Business segment information is reported on a continuing operations basis for all periods presented. See Note 4 in the Notes to the Consolidated Financial Statements for a discussion of discontinued operations.

The results of our business segments are presented and analyzed on an internal management reporting basis:

- Revenue amounts reflect fee and other revenue generated by each segment, as well as fee and other revenue transferred between segments under revenue transfer agreements.
- Revenues and expenses associated with specific client bases are included in those segments. For example, foreign exchange activity associated with clients using custody products is allocated to the Asset Servicing segment.

Balance sheet assets and liabilities and their related income or expense are specifically assigned to each segment. Segments with a net liability position have also been allocated assets from the securities portfolio.

Net interest revenue is allocated to segments based on the yields on the assets and liabilities generated by each segment. We employ a funds transfer pricing system that matches funds with the specific assets and liabilities of each segment based on their interest sensitivity and maturity characteristics.

The measure of revenues and profit or loss by a segment has been adjusted to present segment data on an FTE basis.

Support and other indirect expenses are allocated to segments based on internally-developed methodologies.

Goodwill and intangible assets are reflected within individual business segments.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

The operations of Mellon Financial are included only from July 1, 2007, the effective date of the merger.
The merger with Mellon Financial in July 2007 had a considerable impact on the business segment results in the second quarter of 2008 compared with the second quarter of 2007. The merger with Mellon Financial significantly impacted the Asset Management, Wealth Management and Asset Servicing segments and, to a lesser extent, the Issuer Services, Treasury Services and Other segments. The volatile market environment continued to impact our business segments in the second quarter of 2008 compared with the second quarter of 2007 as reflected by higher foreign exchange and other trading activities and securities lending revenue. Also, broad declines in the equity markets from the second quarter of 2007 influenced revenue in the Asset and Wealth Management segments during that period.

Non-program equity trading volumes were down 11% sequentially and up 36% year-over-year. In addition, average daily U.S. fixed-income trading volume was down 16% sequentially and up 1% year-over-year. Total debt issuances increased 31% sequentially and decreased 20% year-over-year. The issuance of global collateralized debt obligations was down 90% versus the second quarter of 2007.

The period end S&P 500 Index decreased 3% sequentially and 15% year-over-year. The period end FTSE 100 Index decreased 1% sequentially and 15% year-over-year. On a daily average basis, both the S&P 500 Index and FTSE 100 Index increased 1% sequentially and decreased 8% year-over-year. The period end NASDAQ Composite Index increased 1% sequentially and decreased 12% year-over-year.

The changes in the value of market indices impact fee revenue in the Asset and Wealth Management segments and our securities servicing businesses. Using the S&P 500 as a proxy for the equity markets, we estimate that a 100 point change in the value of the S&P 500, sustained for one year, would impact fee revenue by approximately 1% and fully diluted EPS on a continuing operations basis by $0.05 per share.

The table below presents the value of certain market indices at period end, as well as on a quarterly and year-to-date average basis.

Market indices						**2Q08 vs.**		Year-to-date		**YTD08 vs.**
	2Q07	3Q07	4Q07	1Q08	**2Q08**	**1Q08**	**2Q07**	**2008**	2007	**YTD07**
S&P 500 Index *(a)*	1503	1527	1468	1323	**1280**	**(3)%**	**(15)%**	**1280**	1503	**(15)%**
S&P 500 Index-daily average	1496	1490	1496	1353	**1371**	**1**	**(8)**	**1362**	1461	**(7)**
FTSE 100 Index *(a)*	6608	6467	6457	5702	**5626**	**(1)**	**(15)**	**5626**	6608	**(15)**
FTSE 100 Index-daily average	6534	6366	6455	5891	**5979**	**1**	**(8)**	**5937**	6397	**(7)**
NASDAQ Composite Index *(a)*	2603	2702	2652	2279	**2293**	**1**	**(12)**	**2293**	2603	**(12)**
Lehman Brothers Aggregate Bond[sm] Index *(a)*	227.9	246.2	257.5	281.2	**270.1**	**(4)**	**19**	**270.1**	227.9	**19**
MSCI EAFE® Index *(a)*	2262.2	2300.3	2253.4	2038.6	**1967.2**	**(4)**	**(13)**	**1967.2**	2262.2	**(13)**
NYSE Volume *(in billions)*	127.7	145.5	135.0	158.5	**140.7**	**(11)**	**10**	**299.2**	251.5	**19**
NASDAQ Volume *(in billions)*	134.0	137.0	137.4	148.9	**134.5**	**(10)**	**-**	**283.4**	265.4	**7**

(a) Period end.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

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

For the quarter ended June 30, 2008 *(dollar amounts in millions, presented on an FTE basis)*	**Asset Management**	**Wealth Management**	**Total Asset & Wealth Management Sector**	**Asset Servicing**	**Issuer Services**	**Clearing Services**	**Treasury Services**	**Total Institutional Services Sector**	**Other Segment**	**Total Continuing Operations**
Fee and other revenue	**$ 796**	**$ 161**	**$ 957**	**$ 1,085**	**$ 479**	**$ 330**	**$ 255**	**$ 2,149**	**$ (109)**	**$ 2,997**
Net interest revenue	**11**	**48**	**59**	**213**	**176**	**74**	**153**	**616**	**(260)**	**415**
Total revenue	**807**	**209**	**1,016**	**1,298**	**655**	**404**	**408**	**2,765**	**(369)**	**3,412** *(a)*
Provision for credit losses		**(1)**	**(1)**						**26**	**25**
Noninterest expense	**604**	**155**	**759**	**808**	**367**	**297**	**210**	**1,682**	**317**	**2,758**
Income before taxes	**$ 203**	**$ 55**	**$ 258**	**$ 490**	**$ 288**	**$ 107**	**$ 198**	**$ 1,083**	**$ (712)**	**$ 629**
Pre-tax operating margin *(b)*	**25%**	**26%**	**25%**	**38%**	**44%**	**26%**	**49%**	**39%**	**N/M**	**18%**
Average assets	**$ 13,000**	**$ 10,247**	**$ 23,247**	**$ 54,407**	**$ 35,119**	**$ 17,289**	**$ 20,715**	**$ 127,530**	**$ 45,220**	**$ 195,997**
Excluding intangible amortization:										
Noninterest expense	**$ 536**	**$ 142**	**$ 678**	**$ 803**	**$ 347**	**$ 291**	**$ 203**	**$ 1,644**	**$ 312**	**$ 2,634**
Income before taxes	**271**	**68**	**339**	**495**	**308**	**113**	**205**	**1,121**	**(707)**	**753**
Pre-tax operating margin *(b)*	**34%**	**33%**	**33%**	**38%**	**47%**	**28%**	**50%**	**41%**	**N/M**	**22%**

For the quarter ended March 31, 2008 *(dollar amounts in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations
Fee and other revenue	$ 752	$ 166	$ 918	$ 1,101	$ 407	$ 319	$ 227	$ 2,054	$ 15	$ 2,987
Net interest revenue	15	46	61	221	153	74	183	631	81	773
Total revenue	767	212	979	1,322	560	393	410	2,685	96	3,760 *(a)*
Provision for credit losses									16	16
Noninterest expense	624	155	779	752	337	280	212	1,581	259	2,619
Income before taxes	$ 143	$ 57	$ 200	$ 570	$ 223	$ 113	$ 198	$ 1,104	$ (179)	$ 1,125
Pre-tax operating margin *(b)*	19%	27%	20%	43%	40%	29%	48%	41%	N/M	30%
Average assets	$ 12,976	$ 10,489	$ 23,465	$ 52,170	$ 32,182	$ 16,574	$ 23,620	$ 124,546	$ 52,779	$ 200,790
Excluding intangible amortization:										
Noninterest expense	$ 562	$ 142	$ 704	$ 745	$ 317	$ 274	$ 205	$ 1,541	$ 252	$ 2,497
Income before taxes	205	70	275	577	243	119	205	1,144	(172)	1,247
Pre-tax operating margin *(b)*	27%	33%	28%	44%	43%	30%	50%	43%	N/M	33%

For the quarter ended

Dec. 31, 2007

(dollar amounts in millions, presented on an FTE basis)	Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations
Fee and other revenue	$ 888	$ 167	$ 1,055	$ 1,033	$ 457	$ 357	$ 243	$ 2,090	$ (90)	$ 3,055
Net interest revenue	18	42	60	224	175	78	162	639	58	757
Total revenue	906	209	1,115	1,257	632	435	405	2,729	(32)	3,812 *(a)*
Provision for credit losses									20	20
Noninterest expense	629	156	785	813	345	311	208	1,677	287	2,749
Income before taxes	$ 277	$ 53	$ 330	$ 444	$ 287	$ 124	$ 197	$ 1,052	$ (339)	$ 1,043
Pre-tax operating margin *(b)*	31%	25%	30%	35%	45%	29%	49%	39%	N/M	27%
Average assets	$ 13,079	$ 9,854	$ 22,933	$ 48,353	$ 32,708	$ 16,698	$ 21,803	$ 119,562	$ 50,492	$ 192,987
Excluding intangible amortization:										
Noninterest expense	$ 559	$ 142	$ 701	$ 807	$ 324	$ 305	$ 201	$ 1,637	$ 280	$ 2,618
Income before taxes	347	67	414	450	308	130	204	1,092	(332)	1,174
Pre-tax operating margin *(b)*	38%	32%	37%	36%	49%	30%	50%	40%	N/M	31%

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

For the quarter ended Sept. 30, 2007 *(dollar amounts in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations
Fee and other revenue	$ 745	$ 156	$ 901	$ 906	$ 460	$ 372	$ 224	$ 1,962	$ 77	$ 2,940
Net interest revenue	(4)	41	37	195	159	77	140	571	66	674
Total revenue	741	197	938	1,101	619	449	364	2,533	143	3,614 *(a)*
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Noninterest expense	608	153	761	759	311	322	203	1,595	350	2,706
Income before taxes	$ 133	$ 44	$ 177	$ 342	$ 308	$ 127	$ 161	$ 938	$ (207)	$ 908
Pre-tax operating margin*(b)*	18%	22%	19%	31%	50%	28%	44%	37%	N/M	25%
Average assets	$ 13,021	$ 9,960	$ 22,981	$ 43,948	$ 30,738	$ 15,854	$ 21,070	$ 111,610	$ 49,237	$ 183,828
Excluding intangible amortization:										
Noninterest expense	$ 538	$ 139	$ 677	$ 753	$ 291	$ 316	$ 196	$ 1,556	$ 342	$ 2,575
Income before taxes	203	58	261	348	328	133	168	977	(199)	1,039
Pre-tax operating margin*(b)*	27%	29%	28%	32%	53%	30%	46%	39%	N/M	29%

Legacy The Bank of New York only

For the quarter ended June 30, 2007 *(dollar amounts in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations
Fee and other revenue	$ 127	$ 50	$ 177	$ 520	$ 390	$ 321	$ 143	$ 1,374	$ 29	$ 1,580
Net interest revenue	(2)	14	12	148	131	75	102	456	(14)	454
Total revenue	125	64	189	668	521	396	245	1,830	15	2,034 *(a)*
Provision for credit losses	-	-	-	-	-	-	-	-	(15)	(15)
Noninterest expense	76	53	129	466	257	300	127	1,150	110	1,389
Income before taxes	$ 49	$ 11	$ 60	$ 202	$ 264	$ 96	$ 118	$ 680	$ (80)	$ 660
Pre-tax operating margin*(b)*	39%	17%	32%	30%	51%	24%	48%	37%	N/M	32%
Average assets	$ 1,557	$ 1,427	$ 2,984	$ 30,819	$ 23,189	$ 14,392	$ 15,803	$ 84,203	$ 27,136	$ 114,323
Excluding intangible amortization:										
Noninterest expense	$ 72	$ 53	$ 125	$ 464	$ 240	$ 294	$ 127	$ 1,125	$ 110	$ 1,360
Income before taxes	53	11	64	204	281	102	118	705	(80)	689
Pre-tax operating margin*(b)*	42%	17%	34%	31%	54%	26%	48%	39%	N/M	34%

For the six months ended	**Asset Management**	**Wealth Management**	**Total**	**Asset Servicing**	**Issuer Services**	**Clearing Services**	**Treasury Services**	**Total Institutional**	**Other Segment**	**Total Continuing**

June 30, 2008 *(dollar amounts in millions, presented on an FTE basis)*			**Asset & Wealth Management Sector**					**Services Sector**		**Operations**
Fee and other revenue	**$ 1,548**	**$ 327**	**$ 1,875**	**$ 2,186**	**$ 886**	**$ 649**	**$ 482**	**$ 4,203**	**$ (94)**	**$ 5,984**
Net interest revenue	**26**	**94**	**120**	**434**	**329**	**148**	**336**	**1,247**	**(179)**	**1,188**
Total revenue	**1,574**	**421**	**1,995**	**2,620**	**1,215**	**797**	**818**	**5,450**	**(273)**	**7,172** *(a)*
Provision for credit losses	**-**	**(1)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**42**	**41**
Noninterest expense	**1,228**	**310**	**1,538**	**1,560**	**704**	**577**	**422**	**3,263**	**576**	**5,377**
Income before taxes	**$ 346**	**$ 112**	**$ 458**	**$ 1,060**	**$ 511**	**$ 220**	**$ 396**	**$ 2,187**	**$ (891)**	**$ 1,754**
Pre-tax operating margin *(b)*	**22%**	**27%**	**23%**	**40%**	**42%**	**28%**	**48%**	**40%**	**N/M**	**24%**
Average assets	**$ 12,988**	**$ 10,368**	**$ 23,356**	**$ 53,288**	**$ 33,651**	**$ 16,932**	**$ 22,168**	**$ 126,039**	**$ 48,999**	**$ 198,394**
Excluding intangible amortization:										
Noninterest expense	**$ 1,098**	**$ 284**	**$ 1,382**	**$ 1,548**	**$ 664**	**$ 565**	**$ 408**	**$ 3,185**	**$ 564**	**$ 5,131**
Income before taxes	**476**	**138**	**614**	**1,072**	**551**	**232**	**410**	**2,265**	**(879)**	**2,000**
Pre-tax operating margin *(b)*	**30%**	**33%**	**31%**	**41%**	**45%**	**29%**	**50%**	**42%**	**N/M**	**28%**

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

For the six months ended June 30, 2007 *(dollar amounts in millions, presented on an FTE basis)*	**Legacy The Bank of New York only** Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations
Fee and other revenue	$ 233	$ 100	$ 333	$ 992	$ 743	$ 631	$ 280	$ 2,646	$ 76	$ 3,055
Net interest revenue	5	28	33	273	233	149	211	866	(16)	883
Total revenue	238	128	366	1,265	976	780	491	3,512	60	3,938 *(a)*
Provision for credit losses	-	-	-	-	-	-	-	-	(30)	(30)
Noninterest expense	146	104	250	899	503	583	246	2,231	180	2,661
Income before taxes	$ 92	$ 24	$ 116	$ 366	$ 473	$ 197	$ 245	$ 1,281	$ (90)	$ 1,307
Pre-tax operating margin *(b)*	39%	19%	32%	29%	48%	25%	50%	36%	N/M	33%
Average assets	$ 1,687	$ 1,423	$ 3,110	$ 29,643	$ 19,466	$ 14,687	$ 15,409	$ 79,205	$ 25,903	$ 108,218
Excluding intangible amortization:										
Noninterest expense	$ 138	$ 104	$ 242	$ 896	$ 469	$ 571	$ 246	$ 2,182	$ 180	$ 2,604
Income before taxes	100	24	124	369	507	209	245	1,330	(90)	1,364
Pre-tax operating margin *(b)*	42%	19%	34%	29%	52%	27%	50%	38%	N/M	35%

(a) Consolidated results include FTE impact of $15 million in the second quarter of 2008, $15 million in the first quarter of 2008, $16 million in the fourth quarter of 2007, $14 million in the third quarter of 2007, $2 million in the second quarter of 2007, $30 million in the first six months of 2008 and $4 million in the first six months of 2007.

(b) Income before taxes divided by total revenue.

N/M Not meaningful.

Asset and Wealth Management Sector

Asset and Wealth Management fee revenue is dependent on the overall level and mix of assets under management (AUM) and the management fees expressed in basis points (one-hundredth of one percent) charged for managing those assets. AUM were $1.113 trillion at June 30, 2008, compared

with $153 billion at June 30, 2007, and $1.105 trillion at March 31, 2008. The year-over-year increase in AUM reflects the merger with Mellon Financial and strong money market flows, partially offset by broad declines in equity market levels. The increase from March 31, 2008 reflects strong money market flows, partially offset by long-term outflows and lower equity markets.

Assets under management at period-end, by product type *(in billions)*	June 30, 2007 *(a)*	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	**June 30, 2008**
Equity securities	$ 43	$ 456	$ 460	$ 424	**$ 412**

Money market	41	275	296	320	**343**
Fixed income securities	22	215	218	219	**218**
Alternative investments and overlay	47	160	147	142	**140**
Total assets under management	$ 153	$ 1,106	$ 1,121	$ 1,105	**$ 1,113**

(a) Legacy The Bank of New York only.

Assets under management at period-end, by client type

(in billions)	June 30, 2007 (a)	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	**June 30, 2008**
Institutional	$ 113	$ 682	$ 671	$ 636	**$ 625**
Mutual funds	18	323	349	373	**393**
Private client	22	101	101	96	**95**
Total assets under management	$ 153	$ 1,106	$ 1,121	$ 1,105	**$ 1,113**

(a) Legacy The Bank of New York only.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Changes in market value of assets under management from March 31, 2008 to June 30, 2008 by business segment

(in billions)	Asset Management	Wealth Management	Total
Market value of assets under management at March 31, 2008:	$ 1,021	$ 84	$ 1,105
Net inflows (outflows):			
Long-term	(8)		(8)
Money market	21		21
Total net inflows	13		13
Net market depreciation *(a)*	(3)	(3)	(6)
Other	1		1
Market value of assets under management at June 30, 2008	**$ 1,032***(b)*	**$ 81***(c)*	**$ 1,113**

(a) Includes the effect of changes in foreign exchange rates.
(b) Excludes $8 billion subadvised for other segments.
(c) Excludes private client assets managed in the Asset Management segment.

Changes in market value of assets under management from June 30, 2007 to June 30, 2008 by business segment

(in billions)	Asset Management	Wealth Management	Total
Market value of assets under management at June 30, 2007:			
The Bank of New York	$ 129	$ 24	$ 153
Mellon Financial	868	61	929
Net inflows (outflows):			
Long-term	(36)	4	(32)
Money market	116	-	116
Total net inflows	80	4	84
Net market depreciation *(a)*	(46)	(8)	(54)
Other	1	-	1
Market value of assets under management at June 30, 2008	**$ 1,032***(b)*	**$ 81***(c)*	**$ 1,113**

(a) Includes the effect of changes in foreign exchange rates.
(b) Excludes $8 billion subadvised for other segments.
(c) Excludes private client assets managed in the Asset Management segment.

Asset Management segment

(dollar amounts in millions, presented on FTE basis)	2Q07 (a)	3Q07	4Q07	1Q08	**2Q08**	**2Q08 vs. 1Q08**	**2Q08 vs. 2Q07**	**Year-to-date 2008**	Year-to-date 2007 *(a)*	**YTD08 vs. YTD07**
Revenue:										

Asset and wealth management:										
Mutual funds	$ 4	$ 307	$ 323	$ 323	**$ 340**	**5%**	**N/M**	**$ 663**	$ 7	**N/M**
Institutional clients	80	331	342	304	**290**	**(5)**	**263%**	**594**	148	**301%**
Private clients	16	47	47	45	**47**	**4**	**194**	**92**	30	**207**
Total asset and wealth management revenue	100	685	712	672	**677**	**1**	**577**	**1,349**	185	**629**
Performance fees	21	(3)	62	20	**16**	**(20)**	**(24)**	**36**	35	**3**
Distribution and servicing	-	89	104	86	**99**	**15**	**N/M**	**185**	-	**N/M**
Other	6	(26)	10	(26)	**4**	**N/M**	**(33)**	**(22)**	13	**(269)**
Total fee and other revenue	127	745	888	752	**796**	**6**	**527**	**1,548**	233	**564**
Net interest revenue (expense)	(2)	(4)	18	15	**11**	**(27)**	**N/M**	**26**	5	**420**
Total revenue	125	741	906	767	**807**	**5**	**546**	**1,574**	238	**561**
Noninterest expense (ex. intangible amortization)	72	538	559	562	**536**	**(5)**	**644**	**1,098**	138	**696**
Income before taxes (ex. intangible amortization)	53	203	347	205	**271**	**32**	**411**	**476**	100	**376**
Amortization of intangible assets	4	70	70	62	**68**	**10**	**N/M**	**130**	8	**N/M**
Income before taxes	$ 49	$ 133	$ 277	$ 143	**$ 203**	**42%**	**314%**	**$ 346**	$ 92	**276**
Pre-tax operating margin (ex. intangible amortization)	42%	27%	38%	27%	**34%**			**30%**	42%	
Average assets	$ 1,557	$ 13,021	$ 13,079	$ 12,976	**$ 13,000**	**-%**	**735%**	**$ 12,988**	$ 1,687	**670%**

(a) Legacy The Bank of New York only.
N/M Not meaningful.

Business description

BNY Mellon Asset Management is the umbrella organization for all of our affiliated investment management boutiques and is responsible, through various subsidiaries, for U.S. and non-U.S. retail,

intermediary and institutional distribution of investment management 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, BNY Mellon Asset Management includes BNY Mellon Asset

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Management International, which is responsible for the distribution of investment management products internationally, and the Dreyfus Corporation, which is responsible for U.S. distribution of retail mutual funds, separate accounts and annuities.

BNY Mellon Asset Management is the 13th largest global asset manager, the 10th largest U.S. asset manager and the 7th largest asset manager in Europe. We are also a top five tax-exempt, institutional U.S. asset manager.

In the first quarter of 2008, we acquired ARX, a leading independent asset management business headquartered in Rio de Janeiro, Brazil. ARX has more than $2.8 billion in assets under management. Also in the first quarter, we sold a portion of the Estabrook Capital Management business which reduced our assets under management by $2.4 billion.

On July 18, 2008, we entered into a definitive agreement to sell the assets of Gannett Welsh & Kotler, an investment management subsidiary with approximately $8 billion in assets under management. We expect to complete this transaction by the end of 2008.

The results of the Asset Management segment are mainly driven by the period-end and average levels of assets managed as well as the mix of those assets, as previously shown. Results for this segment are also impacted by sales of fee-based products such as fixed and variable annuities and separately managed accounts. Expenses in this segment are mainly driven by staffing costs, incentives, distribution and servicing expense, and product distribution costs.

Review of financial results

Income before taxes was $203 million in the second quarter of 2008 compared with $49 million in the second quarter of 2007 and $143 million in the first quarter of 2008. Income before taxes (excluding intangible amortization) was $271 million in the second quarter of 2008 compared with $53 million in the second quarter of 2007 and $205 million in the first quarter of 2008. Results compared with the second quarter of 2007 were primarily impacted by the merger with Mellon Financial. The increase in the second quarter of 2008 compared with the first

quarter of 2008 primarily resulted from write-downs in the first quarter of 2008 related to seed capital investments related to a formerly affiliated hedge fund manager and securities previously purchased from investment boutiques.

Asset and wealth management revenue in the Asset Management segment was $677 million in the second quarter of 2008 compared with $100 million in the second quarter of 2007 and $672 million in the first quarter of 2008. The increase compared to the second quarter of 2007 reflects the merger with Mellon Financial, partially offset by broad declines in the equity markets. The increase compared with the first quarter of 2008 reflects strong money market flows primarily offset by lower equity market levels.

Performance fees were $16 million in the second quarter of 2008 compared with $21 million in the second quarter of 2007 and $20 million in the first quarter of 2008.

Distribution and servicing fees were $99 million in the second quarter of 2008 compared with $86 million in the first quarter of 2008. There were no distribution and servicing fees in the second quarter of 2007. The increase compared with the prior year period resulted from the merger with Mellon Financial. The increase sequentially reflects strong money market flows as well as redemptions in certain international funds.

Other fee revenue was $4 million in the second quarter of 2008 compared with $6 million in the second quarter of 2007 and a loss of $26 million in the first quarter of 2008. The sequential increase resulted from higher seed capital revenue and the write-down ($24 million) in the first quarter of 2008 related to securities previously purchased from investment boutiques.

Noninterest expense (excluding intangible amortization) was $536 million in the second quarter of 2008 compared with $72 million in the second quarter of 2007 and $562 million in the first quarter of 2008. The increase compared with the second quarter of 2007 principally reflects the merger with Mellon Financial, the first quarter of 2008 acquisition of ARX and the April 1, 2008 merit increases, partially offset by strong expense

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

control. The decrease sequentially primarily reflects the write-down in the first quarter of 2008 ($25 million) of seed capital investments related to a formerly affiliated hedge fund manager.

Year-to-date 2008 compared with year-to-date 2007

Income before taxes totaled $346 million in the first six months of 2008 compared with $92 million in the first six months of 2007. Income before taxes (excluding intangible amortization) was $476

million in the first six months of 2008 compared with $100 million in the first six months of 2007. Fee and other revenue increased $1.315 billion, primarily due to the merger with Mellon Financial, the benefit of strong money market flows and growth in business outside the U.S., partially offset by lower equity markets. Noninterest expense (excluding intangible amortization) increased $960 million in the first six months of 2008 compared with the first six months of 2007, primarily due to the merger with Mellon Financial, the previously mentioned seed capital write-down and the ARX acquisition, partially offset by strong expense control.

Wealth Management segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis) (a)	2Q07 (b)	3Q07	4Q07	1Q08	**2Q08**	**2Q08 vs. 1Q08**	**2Q08 vs. 2Q07**	Year-to-date **2008**	Year-to-date 2007 (b)	**YTD08 vs. YTD07**
Revenue:										
Asset and wealth management	$ 48	$ 151	$ 157	$ 153	**$ 150**	**(2)%**	**213%**	**$ 303**	$ 96	**216%**
Other	2	5	10	13	**11**	**(15)**	**N/M**	**24**	4	**N/M**
Total fee and other revenue	50	156	167	166	**161**	**(2)**	**222**	**327**	100	**227**
Net interest revenue	14	41	42	46	**48**	**4**	**243**	**94**	28	**236**
Total revenue	64	197	209	212	**209**	**(1)**	**227**	**421**	128	**229**
Provision for credit losses	-	-	-	-	**(1)**	**N/M**	**N/M**	**(1)**	-	**N/M**
Noninterest expense (ex. intangible amortization)	53	139	142	142	**142**	**-**	**168**	**284**	104	**173**
Income before taxes (ex. intangible amortization)	11	58	67	70	**68**	**(3)**	**518**	**138**	24	**475**
Amortization of intangible assets	-	14	14	13	**13**	**-**	**N/M**	**26**	-	**N/M**
Income before taxes	$ 11	$ 44	$ 53	$ 57	**$ 55**	**(4)%**	**400%**	**$ 112**	$ 24	**367%**
Pre-tax operating margin (ex. intangible amortization)	17%	29%	32%	33%	**33%**			**33%**	19%	
Average loans	$ 1,342	$ 4,133	$ 4,342	$ 4,390	**$ 4,816**	**10%**	**259%**	**$ 4,603**	$ 1,339	**244%**
Average assets	1,427	9,960	9,854	10,489	**10,247**	**(2)**	**618**	**10,368**	1,423	**629**
Average deposits	1,065	7,585	7,464	7,993	**7,782**	**(3)**	**631**	**7,888**	1,085	**627**
Market value of total client assets under management and custody	$ 59	$ 170	$ 170	$ 164	**$ 162**	**(2)%**	**175%**	**$ 162**	$ 59	**175%**

at period-end *(in billions)*

(a) In the second quarter of 2008, the financial results of M1BB and MUNB were reclassified from Wealth Management to the Other segment. This change reflects the sale of M1BB in June 2008, as well as our focus on reducing non-core activities. All prior periods have been reclassified.

(b) Legacy The Bank of New York only.

N/M - Not meaningful.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Business description

In the Wealth Management segment, 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. Clients include high-net-worth individuals and families, family offices and business enterprises, charitable gift programs, and endowments and foundations. BNY Mellon Wealth Management is a top ten U.S. wealth manager with $162 billion in client assets. We serve our clients through an expansive network of offices in 16 states and 3 countries.

The results of the Wealth Management segment are driven by the level and mix of assets managed and custodied and the level of activity in client accounts.

Net interest revenue is determined by the level of interest spread between loans and deposits. Expenses of this segment are driven mainly by staff expense in the investment management, sales, service and support groups.

Review of financial results

Income before taxes was $55 million in the second quarter of 2008, compared with $11 million in the second quarter of 2007 and $57 million in the first quarter of 2008. Income before taxes, excluding intangible amortization, was $68 million in the second quarter of 2008, compared with $11 million in the second quarter of 2007 and $70 million in the first quarter of 2008. The increase compared with the second quarter of 2007 resulted from the merger with Mellon Financial. The decrease sequentially reflects the impact of lower market levels.

Total fee and other revenue was $161 million in the second quarter of 2008, compared with $50 million in the second quarter of 2007 and $166 million in the first quarter of 2008. The increase compared with the second quarter of 2007 primarily resulted from the merger with Mellon Financial and new business, partially offset by market declines. The decrease compared with the first quarter of 2008 reflects lower market levels which more than offset the impact of new business.

Net interest revenue increased $34 million compared with the second quarter of 2007 and $2 million compared with the first quarter of 2008. The increase compared with the second quarter of 2007 primarily reflects the merger with Mellon Financial and higher deposit levels. The increase compared with the first quarter of 2008 was primarily due to higher loan levels and improved spreads.

Average deposit levels were up $6.7 billion over the prior year period due to the merger with Mellon Financial, new business and products, and down $211 million, or 3% (unannualized), sequentially due to seasonality. Average loan levels were up $3.5 billion over the prior year period due to the merger with Mellon Financial and up $426 million, or 10% (unannualized) sequentially, due to new business.

Noninterest expense (excluding intangible amortization) increased $89 million compared with the second quarter of 2007 and was flat compared with the first quarter of 2008. The increase compared with the second quarter of 2007 reflects the merger with Mellon Financial, partially offset by merger-related synergies. Noninterest expense was flat sequentially as the impact of the April 1, 2008 merit increase was fully offset by the impact of merger-related synergies and strong overall expense control.

Year-to-date 2008 compared with year-to-date 2007

Income before taxes totaled $112 million in the first six months of 2008 compared with $24 million in the first six months of 2007. Excluding intangible amortization, income before taxes increased $114 million. The increases in fee and other revenues, net interest revenue and noninterest expense primarily reflect the same factors impacting the comparisons mentioned above.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Institutional Services Sector

At June 30, 2008, our assets under custody and administration were $23.0 trillion, a slight decrease from $23.1 trillion at March 31, 2008 and up from $16.7 trillion at June 30, 2007. The decrease sequentially primarily reflects lower market levels, substantially offset by new business. The increase in assets under custody and administration, compared with June 30, 2007 primarily reflects the merger with Mellon Financial and new business, partially offset by lower market levels. Equity securities comprised 25% and fixed-income

securities were 75% of the assets under custody and administration at June 30, 2008, compared with 30% equity securities and 70% fixed-income securities at March 31, 2008. Assets under custody and administration at June 30, 2008 consisted of assets related to custody, mutual fund, and corporate trust businesses of $17.8 trillion, broker-dealer service assets of $2.9 trillion, and all other assets of $2.3 trillion.

	June 30, 2007[a]	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	**June 30, 2008**
Market value of assets under custody and administration at period-end *(in trillions)*[b]	$ 16.7 *(c)*	$ 22.7 *(c)*	$ 23.1	$ 23.1	**$ 23.0**
Market value of securities on loan at period-end *(in billions)* [d]	397	663	633	660	**588**

(a) Legacy The Bank of New York only.
(b) Includes the assets under custody or administration of CIBC Mellon Global Securities Services Company, a joint venture between BNY Mellon and the Canadian Imperial Bank of Commerce of $915 billion at June 30, 2008, $930 billion at March 31, 2008, $989 billion at Dec. 31, 2007, and $957 billion at Sept. 30, 2007.
(c) Revised for Acquired Corporate Trust Business and harmonization adjustments.
(d) Represents the total amount of securities on loan, both cash and non-cash, managed by the Asset Servicing segment.

Asset Servicing segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	2Q07 [a]	3Q07	4Q07	1Q08	**2Q08**	**2Q08 vs. 1Q08**	**2Q08 vs. 2Q07**	Year-to-date **2008**	Year-to-date 2007 [a]	**YTD08 vs. YTD07**
Revenue:										
Securities servicing fees - asset servicing	$ 424	$ 689	$ 774	$ 857	**$ 825**	**(4)%**	**95%**	**$ 1,682**	$ 814	**107%**
Foreign exchange & other trading activities	77	161	206	200	**224**	**12**	**191**	**424**	144	**194**
Other	19	56	53	44	**36**	**(18)**	**89**	**80**	34	**135**
Total fee and other revenue	520	906	1,033	1,101	**1,085**	**(1)**	**109**	**2,186**	992	**120**
Net interest revenue	148	195	224	221	**213**	**(4)**	**44**	**434**	273	**59**
Total revenue	668	1,101	1,257	1,322	**1,298**	**(2)**	**94**	**2,620**	1,265	**107**
Noninterest expense (ex. intangible amortization)	464	753	807	745	**803**	**8**	**73**	**1,548**	896	**73**

Income before taxes (ex. intangible amortization)	204	348	450	577	**495**	**(14)**	**143**	**1,072**	369	**191**
Amortization of intangible assets	2	6	6	7	**5**	**(29)**	**150**	**12**	3	**300**
Income before taxes	$ 202	$ 342	$ 444	$ 570	**$ 490**	**(14)%**	**143%**	**$ 1,060**	$ 366	**190%**
Pre-tax operating margin (ex. intangible amortization)	31%	32%	36%	44%	**38%**			**41%**	29%	
Average assets	$ 30,819	$ 43,948	$ 48,353	$ 52,170	**$ 54,407**	**4%**	**77%**	**$ 53,288**	$ 29,643	**80%**
Average deposits	28,119	37,971	42,338	46,011	**48,340**	**5**	**72**	**47,176**	26,892	**75**
Securities lending revenue	55	110	164	242	**207**	**(14)**	**276**	**449**	91	**393**
Market value of securities on loan at period-end *(in billions)*	397	663	633	660	**588**	**(11)**	**48**	**588**	397	**48**

(a) Legacy The Bank of New York only.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Business description

The Asset Servicing segment includes global custody, global fund services, securities lending, global liquidity services, outsourcing, government securities clearance, collateral management and credit-related services and other linked revenues, principally foreign exchange. Clients include corporate and public retirement funds, foundations and endowments and global financial institutions including banks, broker-dealers, investment managers, insurance companies and mutual funds.

The results of the Asset Servicing segment are driven by a number of factors which include the level of transactional activity and extent of services provided including custody, accounting, fund administration, daily valuations, performance measurement and risk analytics, securities lending and investment manager backoffice outsourcing, as well as the market value of assets under administration and custody. Market interest rates impact both securities lending revenue and the earnings on client cash balances. Broker-dealer fees depend on the level of activity in the fixed income and equity markets and the financing needs of customers, which are typically higher when the equity and fixed income markets are active. Also, the adoption of tri-party repo arrangements continues to remain a key revenue driver in broker-dealer services. Foreign exchange trading revenues are influenced by the volume of client transactions and the spread realized on these transactions, market volatility in major currencies, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investment and other transactions undertaken by corporate and institutional clients. Segment expenses are principally driven by staffing levels and technology investments necessary to process transaction volumes. Fees paid to subcustodians are driven by market values of global assets and related transaction volumes.

We are one of the leading global securities servicing companies with a total of $23.0 trillion of assets under custody and administration at June 30, 2008. We are one of the largest providers of fund services in the world, servicing $4.8 trillion in assets. We also service 49% of the exchange-traded funds in the U.S. BNY Mellon Asset Servicing clients include

55% of the top 20 endowments. Additionally, we service 42% of the top 50 endowments.

We are a leading custodian in the U.K. and service 35% of U.K. pensions. European asset servicing continues to grow across all products, reflecting significant cross-border investment interest and capital flow. 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 $3.5 trillion in 30 markets around the world at June 30, 2008, compared with $3.0 trillion at Dec. 31, 2007. We are one of the largest global providers of performance and risk analytics with $9.6 trillion in assets under measurement.

Our broker-dealer service business is a leader in global clearance, clearing equity and fixed income transactions in more than 100 markets. We clear approximately 50% of transactions in U.S. Government securities. We are a leading collateral management agent with $1.8 trillion in tri-party balances worldwide at June 30, 2008, up from $1.6 billion at Dec. 31, 2007.

Review of financial results

Income before taxes was $490 million in the second quarter of 2008 compared with $202 million in the second quarter of 2007, and $570 million in the first quarter of 2008. The increase compared with the second quarter of 2007 primarily reflects the merger with Mellon Financial, the acquisition of BNY Mellon Asset Servicing, B.V., as well as higher foreign exchange and securities lending revenue. The sequential decrease primarily resulted from lower securities lending revenue and a high level of expense rebates in the first quarter of 2008.

Total fee and other revenue increased $565 million in the second quarter of 2008 compared with the second quarter of 2007 and decreased $16 million sequentially. The increase compared with the second quarter of 2007 was driven by the merger with Mellon Financial, higher foreign exchange and securities lending revenue, net new business, cross sells and the fourth quarter of 2007 acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V. The sequential decrease resulted from lower securities lending revenue, partially offset by higher foreign exchange revenue.

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Securities lending revenue increased $152 million from the second quarter of 2007 and decreased $35 million on a sequential quarter basis. The increase from the second quarter of 2007 resulted from the merger with Mellon Financial and favorable spreads in the short-term credit markets. The sequential quarter decrease reflects the impact on spreads for government securities, partially offset by seasonality.

Foreign exchange and other trading activities increased $147 million compared with the second quarter of 2007 and increased $24 million sequentially. The increase compared to a year ago primarily reflects the merger with Mellon Financial. Both prior period increases also reflect the benefit of higher client volumes and significant increases in currency volatility.

Net interest revenue increased $65 million compared with the second quarter of 2007, and decreased $8 million compared with the first quarter of 2008. The increase compared with the second quarter of 2007 was primarily driven by the merger with Mellon Financial and strong deposit growth, partially offset by lower spreads due to the declining interest rate environment. The sequential quarter decrease primarily reflects lower spreads which were largely offset by higher deposit levels.

Noninterest expense (excluding intangible amortization) increased $339 million compared with the second quarter of 2007 and increased $58 million compared with the first quarter of 2008.

The increase compared to the second quarter of 2007 was driven by the merger with Mellon Financial as well as the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V., the April 1, 2008 annual merit salary increase, higher foreign exchange revenue related costs, higher than normal legal expenses and systems impairment costs. The sequential increase principally reflects the factors noted above, as well as a higher level of expense rebates in the first quarter of 2008.

Year-to-date 2008 compared with year-to-date 2007

Income before taxes totaled $1,060 million in the first six months of 2008 compared with $366 million in the first six months of 2007. Excluding intangible amortization, income before taxes increased $703 million. Fee and other revenue increased $1.194 billion primarily due to the merger with Mellon Financial, higher foreign currency revenue and higher securities lending revenue related to market volatility, as well as net new business. Net interest revenue increased $161 million primarily driven by the merger with Mellon Financial and deposit growth. Noninterest expense (excluding intangible amortization) increased $652 million primarily due to the merger with Mellon Financial, the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V., the impact of new business and other growth initiatives.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Issuer Services segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	2Q07 [(a)]	3Q07	4Q07	1Q08	**2Q08**	**2Q08 vs. 1Q08**	**2Q08 vs. 2Q07**	Year-to-date **2008**	Year-to-date 2007 [(a)]	**YTD08 vs. YTD07**
Revenue:										
Securities servicing fees - issuer services	$ 367	$ 436	$ 438	$ 374	**$ 443**	**18%**	**21%**	**$ 817**	$ 686	**19%**
Other	23	24	19	33	**36**	**9**	**57**	**69**	57	**21**
Total fee and other revenue	390	460	457	407	**479**	**18**	**23**	**886**	743	**19**
Net interest revenue	131	159	175	153	**176**	**15**	**34**	**329**	233	**41**
Total revenue	521	619	632	560	**655**	**17**	**26**	**1,215**	976	**24**
Noninterest expense (ex. intangible amortization)	240	291	324	317	**347**	**9**	**45**	**664**	469	**42**
Income before taxes (ex. intangible amortization)	281	328	308	243	**308**	**27**	**10**	**551**	507	**9**
Amortization of intangible assets	17	20	21	20	**20**	**-**	**18**	**40**	34	**18**
Income before taxes	$ 264	$ 308	$ 287	$ 223	**$ 288**	**29%**	**9%**	**$ 511**	$ 473	**8%**
Pre-tax operating margin (ex. intangible amortization)	54%	53%	49%	43%	**47%**			**45%**	52%	
Average assets	$ 23,189	$ 30,738	$ 32,708	$ 32,182	**$ 35,119**	**9%**	**51%**	**$ 33,651**	$ 19,466	**73%**
Average deposits	19,183	26,153	28,272	27,608	**30,537**	**11**	**59**	**29,073**	15,438	**88**
Depositary receipts outstanding *(in billions)*	779	1,178	1,360	1,221	**961**	**(21)**	**23**	**961**	779	**23**
Depositary receipt trading value *(in billions)*	248	354	519	499	**461**	**(8)**	**86**	**461**	248	**86**

(a) Legacy The Bank of New York only.

Business description

The Issuer Services segment provides a diverse array of products and services to global fixed income and equity issuers.

As the world s largest trustee, we provide diverse services for conventional, structured and specialty debt issuers. We serve as trustee or agent for approximately 90,000 issues and service $12 trillion in outstanding debt from offices in 56 locations around the world, including 19 locations outside the U.S. We serve as depositary for more than 1,300 American and global depositary receipt programs, with a 62% market share, acting in partnership with leading companies from 63 countries. In addition to its top-ranked stock transfer agency services, BNY Mellon Shareowner Services offers a comprehensive suite of equity solutions ranging from record keeping and corporate actions processing, demutualizations, direct investment, dividend reinvestment, proxy solicitation and employee stock plan administration.

Fee revenue in the Issuer Services segment depends on:

- the volume of issuance of fixed income securities;
- depositary receipts issuance and cancellation volume;
- corporate actions impacting depositary receipts; and
- transfer agency and corporate action volumes.

Expenses in the Issuer Services segment are driven by staff, equipment and space required to support the services provided by the segment.

Review of financial results

Income before taxes was $288 million in the second quarter of 2008, compared with $264 million in the second quarter of 2007 and $223 million in the first quarter of 2008. The increase compared with the second quarter of 2007 reflects the merger with Mellon Financial, as well as growth in Corporate Trust and Depositary Receipts, partially offset by the credit monitoring charge related to lost tapes

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

recorded in the second quarter of 2008. The sequential increase primarily reflects seasonality in Depositary Receipts, partially offset by the credit monitoring charges.

Total fee and other revenue increased $89 million, or 23%, in the second quarter of 2008 compared with the second quarter of 2007. The growth in total fee and other revenue compared to the second quarter of 2007 reflects the merger with Mellon Financial as well as growth in Depositary Receipts and an increase in non-U.S. revenue related to Corporate Trust. Total fee and other revenue increased 18% (unannualized) sequentially resulting from seasonality associated with Depositary Receipts and increased non-U.S. revenue related to corporate trust.

Net interest revenue increased $45 million, or 34%, in the second quarter of 2008 compared with the second quarter of 2007, reflecting the transition of deposits from the Acquired Corporate Trust Business, new business and increased client volumes as well as the merger with Mellon Financial. The sequential-quarter increase in net interest revenue was driven primarily by continued growth in client deposits.

Average assets were $35.1 billion in the second quarter of 2008 compared with $32.2 billion in the first quarter of 2008 and $23.2 billion in the second quarter of 2007. The increase in average assets reflects higher deposit levels. Average deposits were $30.5 billion in the second quarter of 2008, compared with $27.6 billion in the first quarter of 2008 and $19.2 billion in the second quarter of 2007. The higher levels of deposits compared to the second quarter of 2007 reflects the transition of deposits from the Acquired Corporate Trust Business, the merger with Mellon Financial and increased liquidity from our other issuer services customers.

Noninterest expense (excluding intangible amortization) increased $107 million, or 45%, in the second quarter of 2008 compared with the second quarter of 2007 and $30 million, or 9% (unannualized) sequentially. Both increases reflect the impact of the credit monitoring charge for lost tapes recorded in the second quarter of 2008, the April 1, 2008 annual merit salary increase and business growth. The increase compared with the second quarter of 2007 also reflects the merger with Mellon Financial. Further analysis is currently being performed on the lost tapes which may result in additional expenses in the third quarter of 2008.

Year-to-date 2008 compared with year-to-date 2007

Income before taxes totaled $511 million in the first six months of 2008 compared with $473 million in the first six months of 2007. Excluding intangible amortization, income before taxes increased $44 million. Fee and other revenue increased $143 million primarily reflecting the merger with Mellon Financial, an increase in non-U.S. revenue related to the corporate trust business, and growth in Depositary Receipts. Net interest revenue increased $96 million primarily due to the merger with Mellon Financial and a significant increase in deposits in both the corporate trust and shareowner services businesses. Noninterest expenses (excluding intangible amortization) increased $195 million, reflecting the merger with Mellon Financial, expenses associated with revenue growth and the credit monitoring charge for lost tapes.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Clearing Services segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	2Q07(a)	3Q07	4Q07	1Q08	**2Q08**	**2Q08 vs. 1Q08**	**2Q08 vs. 2Q07**	**Year-to-date 2008**	**Year-to-date 2007 (a)**	**YTD08 vs. YTD07**
Revenue:										
Securities servicing fees -clearing and execution services	$ 292	$ 302	$ 310	$ 265	**$ 265**	**-%**	**(9)%**	**$ 530**	$ 574	(8)%
Other	29	70	47	54	**65**	**20**	**124**	**119**	57	109
Total fee and other revenue	321	372	357	319	**330**	**3**	**3**	**649**	631	3
Net interest revenue	75	77	78	74	**74**	**-**	**(1)**	**148**	149	(1)
Total revenue	396	449	435	393	**404**	**3**	**2**	**797**	780	2
Noninterest expense (ex. intangible amortization)	294	316	305	274	**291**	**6**	**(1)**	**565**	571	**(1)**
Income before taxes (ex. intangible amortization)	102	133	130	119	**113**	**(5)**	**11**	**232**	209	**11**
Amortization of intangible assets	6	6	6	6	**6**	**-**	**-**	**12**	12	**-**
Income before taxes	$ 96	$ 127	$ 124	$ 113	**$ 107**	**(5)%**	**11%**	**$ 220**	$ 197	**12%**
Pre-tax operating margin (ex. intangible amortization)	26%	30%	30%	30%	**28%**			**29%**	27%	
Average assets	$ 14,392	$ 15,854	$ 16,698	$ 16,574	**$ 17,289**	**4%**	**20%**	**$ 16,932**	$ 14,687	**15%**
Average active accounts (in thousands)	5,195	5,064	5,069	5,170	**5,280**	**2**	**2**	**5,225**	5,172	**1**
Average margin loans	$ 5,551	$ 5,287	$ 5,301	$ 5,245	**$ 5,791**	**10**	**4**	**$ 5,518**	$ 5,474	**1**

(a) Legacy The Bank of New York only.

Business description

Our Clearing Services segment consists of the Pershing clearing business and a 33.8% equity interest in BNY ConvergEx Group, LLC, which includes the B-Trade and G-Trade execution businesses that were sold by the Company to BNY ConvergEx Group on Feb. 1, 2008. The B-Trade and G-Trade execution businesses have historically contributed approximately $50-60 million of revenue and $10-15 million of pre-tax income on a quarterly basis. These businesses were sold at book value with the potential for an earnout to be realized in the first half of 2009.

Our Pershing LLC and Pershing Advisor Solutions LLC subsidiaries provide financial institutions and independent registered investment advisors with operational support, trading services, flexible technology, an expansive array of investment solutions, practice management support and service excellence. Pershing services more than 1,150 retail and institutional financial organizations and independent registered investment advisors who collectively represent more than five million investors.

Through our affiliate, BNY ConvergEx Group, LLC, we provide liquidity and execution management, investment technologies, intermediary and clearing services and a full suite of electronic and sales trading capabilities in more than 90 global markets, executing more than 200 million U.S. shares and approximately $900 million in non-U.S. principal each day and clearing nearly one million trades daily.

Revenue in this segment includes broker-dealer and Registered Investment Advisor services and electronic trading services which are primarily driven by:

- trading volumes, particularly those related to retail customers;
- overall market levels; and
- the amount of assets under administration.

A substantial amount of revenue in this segment is generated from non-transactional activities, such as asset gathering, mutual fund, money fund and retirement programs, administration and other services. Segment expenses are driven by staff, equipment and space required to support the services provided by the segment and the cost of execution and clearance of trades.

Review of financial results

Income before taxes increased 11% to $107 million for the second quarter of 2008 from $96 million in the second quarter of 2007, and decreased $6 million, or 5% (unannualized), from $113 million in the first quarter of 2008. The increase compared with the second quarter of 2007 reflects strong growth in trading revenue, partially offset by the sale of the B-Trade and G-Trade execution businesses. The sequential decrease primarily reflects the sale of B-Trade and G-Trade execution businesses, and higher expenses in support of business growth, partially offset by strong growth in trading activities.

Total fee and other revenue increased $9 million in the second quarter of 2008 compared with the second quarter of 2007 and $11 million compared with the first quarter of 2008. The increase compared with both periods reflects continued strong growth in trading activity along with growth in money market and mutual fund fees, partially offset by the loss of revenue from the sale of the B-Trade and G-Trade execution businesses.

Net interest revenue decreased $1 million compared with the second quarter of 2007 and was unchanged sequentially. The comparisons to both periods reflect the impact of the lower interest rate environment which was offset by the benefit of higher customer balances.

Noninterest expense (excluding intangible amortization) decreased $3 million compared with the second quarter of 2007 and increased $17 million compared with the first quarter of 2008. The decrease from the second quarter of 2007 reflects the impact of the sale of B-Trade and G-Trade execution businesses, primarily offset by business growth and the merit increase on April 1, 2008. The increase compared with the first quarter of 2008 reflects business growth and the merit increase, partially offset by the sale of B-Trade and G-Trade execution businesses.

Average assets were $17.3 billion in the second quarter of 2008 compared with $16.6 billion in the first quarter of 2008 and $14.4 billion in the second quarter of 2007. The increase from both prior periods reflects higher margin loans and cash balances, and new business.

Year-to-date 2008 compared with year-to-date 2007

Income before taxes totaled $220 million in the first six months of 2008 compared with $197 million in the first six months of 2007. Excluding intangible amortization, income before taxes increased $23 million. Fee and other revenue increased $18 million primarily reflecting strong growth in money market and mutual fund fees and trading activity, partially offset by the sale of B-Trade and G-Trade execution businesses. Net interest revenue decreased $1 million primarily due to the lower rate environment. Noninterest expense (excluding intangible amortization) decreased $6 million primarily reflecting the sale of the B-Trade and G-Trade execution businesses, partially offset by expenses incurred in support of business growth and the April 1, 2008 annual merit salary increase.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Treasury Services segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	2Q07[(a)]	3Q07	4Q07	1Q08	**2Q08**	**2Q08 vs. 1Q08**	**2Q08 vs. 2Q07**	**Year-to-date 2008**	Year-to-date 2007 [(a)]	**YTD08 vs. YTD07**
Revenue:										
Treasury services	$ 49	$ 114	$ 118	$ 121	**$ 125**	**3%**	**155%**	**$ 246**	$ 96	**156%**
Other	94	110	125	106	**130**	**23**	**38**	**236**	184	**28**
Total fee and other revenue	143	224	243	227	**255**	**12**	**78**	**482**	280	**72**
Net interest revenue	102	140	162	183	**153**	**(16)**	**50**	**336**	211	**59**
Total revenue	245	364	405	410	**408**	**-**	**67**	**818**	491	**67**
Noninterest expense (ex. intangible amortization)	127	196	201	205	**203**	**(1)**	**60**	**408**	246	**66**
Income before taxes (ex. intangible amortization)	118	168	204	205	**205**	**-**	**74**	**410**	245	**67**
Amortization of intangible assets	-	7	7	7	**7**	**-**	**N/M**	**14**	-	**N/M**
Income before taxes	$ 118	$ 161	$ 197	$ 198	**$ 198**	**- %**	**68%**	**$ 396**	$ 245	**62%**
Pre-tax operating margin (ex. intangible amortization)	48%	46%	50%	50%	**50%**			**50%**	50%	
Average loans	$ 12,528	$ 13,715	$ 14,330	$ 15,341	**$ 15,606**	**2%**	**25%**	**$ 15,474**	$ 12,215	**27%**
Average assets	15,803	21,070	21,803	23,620	**20,715**	**(12)**	**31**	**22,168**	15,409	**44**
Average deposits	11,213	17,677	17,991	19,838	**17,107**	**(14)**	**53**	**18,473**	10,926	**69**

(a) Legacy The Bank of New York only.
N/M Not meaningful.

Business description

The Treasury Services segment includes treasury services, global payment services, working capital solutions, capital markets business and large corporate banking.

Treasury services revenue is directly influenced by the volume of transactions and payments processed, loan levels, types of service provided, net interest revenue earned from deposit balances generated by activity across our business operations and the value of the credit derivatives portfolio. Treasury services revenue is indirectly influenced by other factors including market volatility in major currencies and the level and nature of underlying cross-border investments and other transactions undertaken by corporate and institutional clients. Segment expenses are driven by staff, equipment and space required to support the services provided, as well as variable expenses such as temporary staffing and operating services in support of volume increases.

Treasury Services offers leading-edge technology, innovative products, and industry expertise to help its clients optimize cash flow, manage liquidity, and make payments around the world in more than 100 different countries. We maintain a global network of branches, representative offices and correspondent banks to provide comprehensive payment services including funds transfer, cash management, trade services and liquidity management. We are one of the largest funds transfer banks in the U.S., transferring over $1.8 trillion daily via more than 170,000 wire transfers.

We provide a broad range of capital markets related services to large public and private corporations, as well as various governmental and not-for-profit entities. Such services include underwriting of debt and equity instruments, securities sales and trading and securities execution.

Our corporate lending strategy is to focus on those clients and industries that are major users of securities servicing and treasury services. Revenue from our lending activities is primarily driven by loan levels and spreads over funding costs.

Review of financial results

Income before taxes was $198 million in the second quarter of 2008 compared with $118 million in the

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

second quarter of 2007, and $198 million in the first quarter of 2008. The increase from the second quarter of 2007 reflects the merger with Mellon Financial and increased spreads in net interest revenue. Sequentially, higher fee revenue was offset by lower net interest revenue.

Total fee and other revenue increased $112 million, compared with the second quarter of 2007 and $28 million compared with the first quarter of 2008. Treasury services fees were up $76 million from the second quarter of 2007 and $4 million from the first quarter of 2008. The increase compared with the second quarter of 2007 reflects the merger with Mellon Financial. The increase compared with both prior periods also reflects higher global payment and cash management fees due primarily to higher client volumes. The increase in other income from both the year-ago quarter and sequentially reflects a higher valuation of our credit derivatives portfolio.

The increase in net interest revenue compared with the second quarter of 2007 resulted from the merger with Mellon Financial and increased spreads. The decrease in net interest revenue sequentially primarily reflects lower deposit levels due primarily to the decline of a large government agency deposit.

Noninterest expense (excluding intangible amortization) increased $76 million compared with the second quarter of 2007 primarily due to the merger with Mellon Financial and business growth, partially offset by the impact of merger-related synergies. The $2 million decrease compared to the first quarter of 2008 reflects the impact of merger-related synergies, as well as the exit of a non-core capital markets business.

Year-to-date 2008 compared with year-to-date 2007

Income before taxes totaled $396 million in the first six months of 2008 compared with $245 million in the first six months of 2007. Excluding intangible amortization, income before taxes increased $165 million. Fee and other revenue increased $202 million primarily reflecting the merger with Mellon Financial and higher global payment and cash management fees due primarily to higher client volumes. Net interest revenue increased $125 million primarily due to the merger with Mellon Financial, as well as higher deposit levels and increased spreads. Noninterest expense (excluding intangible amortization) increased $162 million primarily due to the merger with Mellon Financial.

Other Segment

(dollar amounts in millions,					**Year-to-date**	
presented on an FTE basis) [(a)]	2Q07 [(b)]	3Q07	4Q07	1Q08	**2Q08**	**2008**	2007 [(b)]
Revenue:							
Fee and other revenue	$ 29	$ 77	$ (90)	$ 15	**$ (109)**	**$ (94)**	$ 76
Net interest revenue	(14)	66	58	81	**(260)**	**(179)**	(16)
Total revenue	15	143	(32)	96	**(369)**	**(273)**	60
Provision for credit losses	(15)	-	20	16	**26**	**42**	(30)
Noninterest expense (ex. intangible amortization and merger and integration expenses)	63	124	156	126	**163**	**289**	118
Income (loss) before taxes (ex. intangible amortization and merger and integration expenses)	(33)	19	(208)	(46)	**(558)**	**(604)**	(28)

Amortization of intangible assets	-	8	7	7	**5**	**12**	-
Merger and integration expenses:							
The Bank of New York Mellon Corporation	35	205	111	121	**146**	**267**	39
Acquired Corporate Trust Business	12	13	13	5	**3**	**8**	23
Total merger and integration expenses	47	218	124	126	**149**	**275**	62
Income (loss) before taxes	$ (80)	$ (207)	$ (339)	$ (179)	**$ (712)**	**$ (891)**	$ (90)
Average assets	$ 27,136	$ 49,237	$ 50,492	$ 52,779	**$ 45,220**	**$ 48,999**	$ 25,903
Average deposits	9,354	17,884	18,591	17,615	**15,804**	**16,710**	9,535

(a) In the second quarter of 2008, the financial results of M1BB and MUNB were reclassified from Wealth Management to the Other segment. This change reflects the sale of M1BB in June 2008, as well as our focus on reducing non-core activities. All prior periods have been reclassified.

(b) Legacy The Bank of New York only.

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

Business description

In the second quarter of 2008, the financial results of M1BB and MUNB were reclassified from Wealth Management to the Other segment. This change reflects the sale of M1BB in June 2008, as well as our focus on reducing non-core activities. All prior periods have been reclassified.

The Other segment primarily includes:

- the results of leasing operations;
- corporate treasury activities;
- the results of M1BB and MUNB; and
- business exits and corporate overhead.

Revenue primarily reflects:

- net interest revenue from the leasing portfolio;
- any residual interest income resulting from transfer pricing algorithms relative to actual results;
- revenue from corporate and bank-owned life insurance; and
- gains (losses) from the sale of securities and other assets.

Noninterest expense includes:

- merger and integration charges;
- direct expenses supporting leasing, investing and funding activities; and
- certain corporate overhead not directly attributable to the operations of other segments.

Review of financial results

Income before taxes was a loss of $712 million for the second quarter of 2008, compared with a loss of $80 million in the second quarter of 2007, and a loss of $179 million in the first quarter of 2008.

The Other segment includes the following activity:

In the second quarter of 2008:

- a $377 million (pre-tax) loss related to the SILO charge recorded in net interest revenue; and
- a $152 million (pre-tax) securities loss associated with other-than-temporary-impairment (OTTI) recorded in total fee and other revenue.

In the first quarter of 2008:

- a $51 million (pre-tax) securities loss associated with OTTI recorded in total fee and other revenue.

Total fee and other revenue decreased $138 million compared with the second quarter of 2007 and decreased $124 million sequentially. Both decreases resulted from the securities losses recorded in the second quarter of 2008.

The Other segment had net interest expense of $260 million in the second quarter of 2008 and $14 million in the second quarter of 2007 compared with net interest revenue of $81 million in the first quarter of 2008. The decrease compared with both prior periods reflects the SILO charge recorded in the second quarter of 2008.

The provision for credit losses was $26 million in the second quarter of 2008 compared with $16 million in the first quarter of 2008 and a credit of $15 million in the second quarter of 2007. The increase in provision for credit losses reflects the increase in nonperforming loans.

Noninterest expense (excluding intangible amortization and merger and integration expenses) increased $100 million compared with the second quarter of 2007 and increased $37 million sequentially. Both increases reflect higher incentives, benefits and professional legal and other purchased services expenses. The increase compared with the second quarter of 2007 also reflects the merger with Mellon Financial. Merger and integration expenses associated with the Mellon Financial merger were $146 million in the second quarter of 2008 and include amounts for integration/ conversion costs ($94 million), personnel-related costs ($45 million) and one-time costs ($7 million).

Year-to-date 2008 compared with year-to-date 2007

Income before taxes was a loss of $891 million in the first six months of 2008 compared with a loss of $90 million in the first six months of 2007. Total revenue decreased $333 million and noninterest expenses (excluding intangible amortization and merger and integration expenses) increased $171 million. These variances reflect the same factors as

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

the second quarter of 2008 compared with the second quarter of 2007.

Critical accounting estimates

Our significant accounting policies are discussed in Note 1 to the Consolidated Financial Statements contained in the Company s 2007 Annual Report on Form 10-K. Our critical accounting estimates are those related to the allowance for credit losses, fair value of financial instruments, goodwill and other intangibles, and pension accounting.

Allowance for credit losses

The allowance for credit losses and allowance for lending-related commitments consist of four elements: (1) an allowance for impaired credits; (2) an allowance for higher risk rated loans and exposures; (3) an allowance for pass rated loans and exposures; and (4) an unallocated allowance based on general economic conditions and certain risk factors in our individual portfolio and markets. Further discussion of the four elements can be found under Consolidated Balance Sheet Review.

The allowance for credit losses represents management s estimate of probable losses inherent in our credit portfolio. This evaluation process is subject to numerous estimates and judgments. Probability of default ratings are assigned after analyzing the credit quality of each borrower/ counterparty and our internal ratings are generally consistent with external ratings agencies default databases. Loss given default ratings are driven by the collateral, structure, and seniority of each individual asset and are consistent with external loss given default/recovery databases. The portion of the allowance related to impaired credits is based on the present value of future cash flows; however, as a practical expedient, it may be based on the credit s observable market price. Additionally, it may be based on the fair value of collateral if the credit is collateral-dependent. Changes in the estimates of probability of default, risk ratings, loss given default/recovery rates, and cash flows could have a direct impact on the allocated allowance for loan losses.

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.

We consider it difficult to quantify the impact of changes in forecast on our allowance for credit losses. Nevertheless, we believe the following discussion may enable investors to better understand the variables that drive the allowance for credit losses.

A key variable in determining the allowance is management s judgment in determining the size of the unallocated allowance. At June 30, 2008, the unallocated allowance was $106 million or 22% of the total allowance. At June 30, 2008, if the unallocated allowance, as a percent of the total allowance, was five percent higher or lower, the allowance would have increased or decreased by approximately $25 million, respectively.

The credit rating assigned to each credit is another significant variable in determining the allowance. If each credit were rated one grade better, the allowance would have decreased by $99 million, while if each credit were rated one grade worse, the allowance would have increased by $205 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by $37 million, while if the loss given default were one rating better, the allowance would have decreased by $56 million.

For impaired credits, if the fair value of the loans were 10% higher or lower, the allowance would have decreased or increased by $4 million, respectively.

Fair value of financial instruments

On Jan. 1, 2008, we adopted SFAS 157 and SFAS 159. For further information, see Accounting changes and new accounting pronouncements in Note 3 to the Notes to Consolidated Financial Statements.

SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. The new standard provides a consistent definition of fair value which focuses on exit price

Table of Contents

Items 2. and 3. Management s Discussion and Analysis of Financial Condition and

Results of Operations; Quantitative and Qualitative Disclosures about Market Risk. (continued)

and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS 157 nullifies the guidance in EITF 02-3, which required deferral of profit at inception of a derivative transaction in the absence of observable data supporting the valuation technique. The standard also eliminates large position discounts for financial instruments quoted in active markets and requires consideration of our own credit quality when valuing liabilities.

For financial instruments where quotes from recent exchange transactions are not available, we determine fair value based on discounted cash flow analysis, comparison to similar instruments, and the use of financial models. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Model-based pricing uses inputs of observable prices for interest rates, foreign exchange rates, option volatilities and other factors. Models are benchmarked and validated by an independent internal risk management function. Our valuation process takes into consideration factors such as counterparty credit quality, liquidity, concentration concerns, and results of stress tests. We apply judgment in the application of these factors. In addition, we must apply judgment when no external parameters exist.

In order to test the appropriateness of our 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.

In times of 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 Consolidated Financial Statements contained in our 2007 Annual Report on Form 10-K.

To confirm that our valuation policies are consistent with exit price as prescribed by SFAS 157, we reviewed our securities and derivative valuations including 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 SFAS 157, in the first quarter of 2008 we began to 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. The cumulative effect of making this derivative valuation adjustment was required by SFAS 157 to be recorded in our earnings in the first quarter of 2008 and was not material. 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.

SFAS 159 provides the option to elect fair value as an alternative measurement