

Bank of New York Mellon CORP  
Form 10-Q  
August 08, 2008  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## FORM 10-Q

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  
*(State or other jurisdiction of  
incorporation or organization)*

13-2614959  
*(I.R.S. Employer  
Identification No.)*

One Wall Street

New York, New York 10286

*(Address of principal executive offices)(Zip Code)*

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

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

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past 90 days.

Yes  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

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

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              |
|--------------------------------|--------------------------------|
| Common Stock, \$0.01 par value | June 30, 2008<br>1,146,070,295 |

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**THE BANK OF NEW YORK MELLON CORPORATION**

**SECOND QUARTER 2008 FORM 10-Q**

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### 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's 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.

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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.

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**Table of Contents****Consolidated Financial Highlights (unaudited)****The Bank of New York Mellon Corporation**

| <i>(dollar amounts in millions, except per share<br/>amounts and unless otherwise noted)</i>                                                          | Quarter ended        |                   |                                 | Six months ended     |                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------|---------------------------------|----------------------|---------------------------------|
|                                                                                                                                                       | June 30,<br>2008     | March 31,<br>2008 | June 30,<br>2008 <sup>(a)</sup> | Sept. 30,<br>2007    | June 30,<br>2008 <sup>(a)</sup> |
| <b>Reported results</b>                                                                                                                               |                      |                   |                                 |                      |                                 |
| Net income                                                                                                                                            | \$ 309               | \$ 746            | \$ 445                          | \$ 1,055             | \$ 879                          |
| Basic EPS <sup>(b)</sup>                                                                                                                              | 0.27                 | 0.66              | 0.62                            | 0.93                 | 1.24                            |
| Diluted EPS <sup>(b)</sup>                                                                                                                            | 0.27                 | 0.65              | 0.62                            | 0.92                 | 1.22                            |
| <b>Continuing operations:</b>                                                                                                                         |                      |                   |                                 |                      |                                 |
| 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 <sup>(b)</sup> :                                                                                                       |                      |                   |                                 |                      |                                 |
| 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 <sup>(c) (d)</sup>                                                                                  | 0.34                 | 0.72              | 0.66                            | 1.06                 | 1.28                            |
| Diluted excluding merger and integration expenses and the SILO charge <sup>(c) (d)</sup>                                                              | 0.67                 | 0.72              | 0.66                            | 1.39                 | 1.28                            |
| Diluted excluding merger and integration expenses, intangible amortization and the SILO charge <sup>(c) (d)</sup>                                     | 0.74                 | 0.78              | 0.69                            | 1.52                 | 1.33                            |
| Return on tangible common equity <i>(annualized)</i>                                                                                                  | 26.7%                | 49.1%             | 37.3%                           | 38.8%                | 38.2%                           |
| Return on tangible common equity excluding merger and integration expenses and the SILO charge <i>(annualized)</i> <sup>(c) (d)</sup>                 | 59.7%                | 53.6%             | 39.8%                           | 56.4%                | 39.9%                           |
| Return on common equity <i>(annualized)</i>                                                                                                           | 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 <i>(annualized)</i> <sup>(c) (d)</sup> | 12.0%                | 12.2%             | 17.3%                           | 12.1%                | 17.0%                           |
| Fee and other revenue as a percentage of total revenue (FTE)                                                                                          | 88% <sup>(e)</sup>   | 79%               | 78%                             | 83% <sup>(e)</sup>   | 78%                             |
| Annualized fee and other revenue per employee <i>(in thousands)</i> (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 <sup>(c) (d)</sup>              | 34%                  | 36%               | 36%                             | 35%                  | 36%                             |
| Net interest revenue (FTE)                                                                                                                            | \$ 415               | \$ 773            | \$ 454                          | \$ 1,188             | \$ 883                          |
| Net interest margin (FTE)                                                                                                                             | 1.16% <sup>(e)</sup> | 2.14%             | 2.01%                           | 1.65% <sup>(e)</sup> | 2.10%                           |
| Assets under management <i>(in billions)</i>                                                                                                          | \$ 1,113             | \$ 1,105          | \$ 153                          | \$ 1,113             | \$ 153                          |

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

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**Table of Contents****Consolidated Financial Highlights (unaudited)** (continued)**The Bank of New York Mellon Corporation**

| (dollar amounts in millions, except per share<br>amounts and unless otherwise noted) | Quarter ended    |                   |                                 | Six months ended |                                 |
|--------------------------------------------------------------------------------------|------------------|-------------------|---------------------------------|------------------|---------------------------------|
|                                                                                      | June 30,<br>2008 | March 31,<br>2008 | June 30,<br>2007 <sup>(a)</sup> | June 30,<br>2008 | June 30,<br>2007 <sup>(a)</sup> |
| <b>Capital ratios</b>                                                                |                  |                   |                                 |                  |                                 |
| 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 <sup>(g)</sup>                                | 4.31%            | 4.14%             | 4.53%                           | 4.31%            | 4.53%                           |
| Adjusted for the DTL on tax deductible goodwill <sup>(h)</sup>                       | 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%                           |
| <b>Selected average balances</b>                                                     |                  |                   |                                 |                  |                                 |
| 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                       |
| <b>Other</b>                                                                         |                  |                   |                                 |                  |                                 |
| Employees                                                                            | 43,100           | 42,600            | 23,200                          | 43,100           | 23,200                          |
| Dividends per share <sup>(b)</sup>                                                   | \$ 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 <sup>(b)</sup>                                  | \$ 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 <sup>(b)</sup>                                           | \$ 24.93         | \$ 24.89          | \$ 16.50                        | \$ 24.93         | \$ 16.50                        |
| Tangible book value per common share <sup>(b)</sup>                                  | 5.00             | 4.84              | 7.35                            | 5.00             | 7.35                            |
| Period-end shares outstanding (in thousands) <sup>(b)</sup>                          | 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.



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### **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.

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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

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**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 1<sup>st</sup> 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.

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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.

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**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 Depository 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.

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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

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### 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.



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**Sector/segment overview**

**Sector/Segment**

Asset & Wealth Management sector  
 Asset Management segment

**Primary types of revenue**

Asset and wealth management fees from:

Institutional clients

Mutual funds

Private clients

Performance fees

Distribution and servicing fees

Wealth management fees from high-net-worth individuals and families, family offices and business enterprises, charitable gift programs, and foundations and endowments

Wealth Management segment

Institutional Services sector  
 Asset Servicing segment

Asset servicing fees, including:

Institutional trust and custody fees

Broker-dealer services

Securities lending

Foreign exchange

Issuer services fees, including:

Corporate trust

Depository receipts

Employee investment plan services

Shareowner services

Clearing and execution services fees, including:

Clearing Services segment

Broker-dealer and Registered Investment Advisor services

Treasury services fees, including:

Treasury Services segment

Global payment services

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Other segment

Working capital solutions

Financing-related fees  
Leasing operations

The activities of Mellon United National Bank

Corporate treasury activities

Business exits

Global markets and institutional banking services

Merger and integration expenses

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| <b>Fee and other revenue</b>                                                               |                    |             | <b>2Q08 vs.</b>            |             | <b>Year-to-date</b> |                    | <b>YTD08 vs. YTD07</b>     |      |
|--------------------------------------------------------------------------------------------|--------------------|-------------|----------------------------|-------------|---------------------|--------------------|----------------------------|------|
| <i>(dollars in millions unless otherwise noted)</i>                                        | <b>2Q08</b>        | <b>1Q08</b> | <b>2Q07 <sup>(a)</sup></b> | <b>1Q08</b> | <b>2Q07</b>         | <b>2008</b>        | <b>2007 <sup>(a)</sup></b> |      |
| <b>Securities servicing fees:</b>                                                          |                    |             |                            |             |                     |                    |                            |      |
| 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% <sup>(b)</sup> | 79%         | 78%                        |             |                     | 83% <sup>(b)</sup> | 78%                        |      |
| Market value of assets under management at period-end <i>(in billions)</i>                 | \$ 1,113           | \$ 1,105    | \$ 153                     | 1%          | 627%                | \$ 1,113           | \$ 153                     | 627% |
| Market value of assets under custody or administration at period-end <i>(in trillions)</i> | \$ 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 Depository Receipts business and an increase in foreign

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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 Depository Receipts business, partially offset by lower securities lending revenue. See the Institutional Services Sector in Business segments review for additional details.

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*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*

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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.

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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:

| <b>Other revenue</b>                       | Year-to-date |       |                     |             |                     |
|--------------------------------------------|--------------|-------|---------------------|-------------|---------------------|
| <i>(in millions)</i>                       | <b>2Q08</b>  | 1Q08  | 2Q07 <sup>(a)</sup> | <b>2008</b> | 2007 <sup>(a)</sup> |
| 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           | -                   |

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|                             |       |       |       |        |       |
|-----------------------------|-------|-------|-------|--------|-------|
| 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.*

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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        |          | YTD08 vs. YTD07 |          |                     |          |
|---------------------------------------|----------|--------|---------------------|----------|-----------------|----------|---------------------|----------|
|                                       | 2Q08     | 1Q08   | 2Q07 <sup>(a)</sup> | 1Q08     | 2Q07            | 2008     | 2007 <sup>(a)</sup> |          |
| <i>(dollar amounts in millions)</i>   |          |        |                     |          |                 |          |                     |          |
| 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.*

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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

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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**

|                                                                    | June 30, 2008      |                       | Quarter ended<br>March 31, 2008 |                  | June 30, 2007 <sup>(a)</sup> |                  |
|--------------------------------------------------------------------|--------------------|-----------------------|---------------------------------|------------------|------------------------------|------------------|
|                                                                    | Average<br>balance | Average<br>rates      | Average<br>balance              | Average<br>rates | Average<br>balance           | Average<br>rates |
| <i>(dollar amounts in millions)</i>                                |                    |                       |                                 |                  |                              |                  |
| <b>Assets</b>                                                      |                    |                       |                                 |                  |                              |                  |
| 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) <sup>(b)</sup> | 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 <sup>(b)</sup>   | 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 <sup>(b)</sup>   | 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                   |                  |
| <b>Liabilities and shareholders' equity</b>                        |                    |                       |                                 |                  |                              |                  |
| 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             |

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

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**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 <sup>(a)</sup> |         |
|                                                                    | Average      | Average             | Average             | Average |
| <i>(dollar amounts in millions)</i>                                | balance      | rates               | balance             | rates   |
| <b>Assets</b>                                                      |              |                     |                     |         |
| 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 <sup>(b)</sup> | 19,200              | 5.09    |
| Foreign offices                                                    | 13,230       | 4.28                | 11,955              | 5.77    |
| Total non-margin loans                                             | 42,294       | 2.41 <sup>(b)</sup> | 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 <sup>(b)</sup> | 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          |         |
| <b>Liabilities and shareholders' equity</b>                        |              |                     |                     |         |
| 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    |



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

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| <b>Noninterest expense</b>                              |             |          |                     |                 |             |              |                     | <b>YTD08</b> |
|---------------------------------------------------------|-------------|----------|---------------------|-----------------|-------------|--------------|---------------------|--------------|
| <i>(dollar amounts in millions)</i>                     | <b>2Q08</b> | 1Q08     | 2Q07 <sup>(a)</sup> | <b>2Q08 vs.</b> |             | Year-to-date |                     | <b>vs.</b>   |
|                                                         |             |          |                     | <b>1Q08</b>     | <b>2Q07</b> | <b>2008</b>  | 2007 <sup>(a)</sup> | <b>YTD07</b> |
| 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 ConvergeEx.

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;

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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);

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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).

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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**

| <b>Credit loss provision and net charge-offs</b> | <b>Quarter ended</b> |                  |                            | <b>Six months ended</b> |                            |
|--------------------------------------------------|----------------------|------------------|----------------------------|-------------------------|----------------------------|
|                                                  | <b>June 30,</b>      | <b>March 31,</b> | <b>June 30,</b>            | <b>June 30,</b>         | <b>June 30,</b>            |
| <i>(in millions)</i>                             | <b>2008</b>          | <b>2008</b>      | <b>2007 <sup>(a)</sup></b> | <b>2008</b>             | <b>2007 <sup>(a)</sup></b> |
| 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)                     | -                          |

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|                                    |         |         |      |         |      |
|------------------------------------|---------|---------|------|---------|------|
| 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.

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#### **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 MIBB 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.



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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.

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

(a) Period end.



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

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

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

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For the quarter ended

Dec. 31, 2007

| (dollar amounts in millions,<br>presented on an FTE<br>basis) | Total<br>Asset &<br>Wealth |                      |                      | Total              |                    |                      |                      |                                     |                  |                                   |
|---------------------------------------------------------------|----------------------------|----------------------|----------------------|--------------------|--------------------|----------------------|----------------------|-------------------------------------|------------------|-----------------------------------|
|                                                               | Asset<br>Management        | Wealth<br>Management | Management<br>Sector | Asset<br>Servicing | Issuer<br>Services | Clearing<br>Services | Treasury<br>Services | Institutional<br>Services<br>Sector | Other<br>Segment | Total<br>Continuing<br>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 <sup>(a)</sup>              |
| 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 <sup>(b)</sup>                       | 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<br>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 <sup>(b)</sup>                       | 38%                        | 32%                  | 37%                  | 36%                | 49%                | 30%                  | 50%                  | 40%                                 | N/M              | 31%                               |

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**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**

|                                                                | Total            |                   |                                  |                 |                 |                   |                   |                                     |               |                             |  |
|----------------------------------------------------------------|------------------|-------------------|----------------------------------|-----------------|-----------------|-------------------|-------------------|-------------------------------------|---------------|-----------------------------|--|
|                                                                | Asset Management | Wealth Management | Asset & Wealth Management Sector | Asset Servicing | Issuer Services | Clearing Services | Treasury Services | Total Institutional Services Sector | Other Segment | Total Continuing Operations |  |
| <i>(dollar amounts in millions, presented on an FTE basis)</i> |                  |                   |                                  |                 |                 |                   |                   |                                     |               |                             |  |
| 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 <sup>(a)</sup>        |  |
| 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 <sup>(b)</sup>                        | 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 <sup>(b)</sup>                        | 27%              | 29%               | 28%                              | 32%             | 53%             | 30%               | 46%               | 39%                                 | N/M           | 29%                         |  |

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**For the quarter ended**

**June 30, 2007**

|                                                                | Total            |                   |                                  |                 |                 |                   |                   |                                     |               |                             |  |
|----------------------------------------------------------------|------------------|-------------------|----------------------------------|-----------------|-----------------|-------------------|-------------------|-------------------------------------|---------------|-----------------------------|--|
|                                                                | Asset Management | Wealth Management | Asset & Wealth Management Sector | Asset Servicing | Issuer Services | Clearing Services | Treasury Services | Total Institutional Services Sector | Other Segment | Total Continuing Operations |  |
| <i>(dollar amounts in millions, presented on an FTE basis)</i> |                  |                   |                                  |                 |                 |                   |                   |                                     |               |                             |  |
| 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 <sup>(a)</sup>        |  |
| 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 <sup>(b)</sup>                        | 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 <sup>(b)</sup>                        | 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 |
|--|------------------|-------------------|-------|-----------------|-----------------|-------------------|-------------------|---------------------|---------------|------------------|
|--|------------------|-------------------|-------|-----------------|-----------------|-------------------|-------------------|---------------------|---------------|------------------|

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June 30, 2008

Asset &  
Wealth  
Management  
Sector

Services  
Sector

Operations

(dollar amounts in

millions, presented on

an FTE basis)

|                                         |           |           |           |           |           |           |           |            |           |                      |
|-----------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|-----------|----------------------|
| 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 <sup>(a)</sup> |
| 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 <sup>(b)</sup> | 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 <sup>(b)</sup> | 30%       | 33%       | 31%       | 41%       | 45%       | 29%       | 50%       | 42%        | N/M       | 28%                  |

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**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)**Legacy The Bank of New York only**

For the six months ended

June 30, 2007

(dollar amounts in millions, presented on an FTE basis)

|                                         | Total            |                   |                                  |                 |                 |                   |                   |                                     |               |                             |
|-----------------------------------------|------------------|-------------------|----------------------------------|-----------------|-----------------|-------------------|-------------------|-------------------------------------|---------------|-----------------------------|
|                                         | Asset Management | Wealth Management | 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 <sup>(a)</sup>        |
| 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 <sup>(b)</sup> | 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 <sup>(b)</sup> | 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**

|                   | June 30, 2007  | Sept. 30, 2007 | Dec. 31, 2007 | March 31, 2008 | June 30, 2008 |
|-------------------|----------------|----------------|---------------|----------------|---------------|
| (in billions)     | <sup>(a)</sup> |                |               |                |               |
| Equity securities | \$ 43          | \$ 456         | \$ 460        | \$ 424         | \$ 412        |



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

(a) Legacy The Bank of New York only.

Assets under management at period-end, by client type

| (in billions)                 | June 30,<br>2007<br>(a) | Sept.<br>30,<br>2007 | Dec. 31,<br>2007 | March 31,<br>2008 | June 30,<br>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                         |  | Wealth                     |                 |
|-----------------------------------------------------------------|-------------------------------|--|----------------------------|-----------------|
|                                                                 | Management                    |  | 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 <sup>(a)</sup>                          | (3)                           |  | (3)                        | (6)             |
| Other                                                           | 1                             |  |                            | 1               |
| <b>Market value of assets under management at June 30, 2008</b> | <b>\$ 1,032<sup>(b)</sup></b> |  | <b>\$ 81<sup>(c)</sup></b> | <b>\$ 1,113</b> |

(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                         |  | Wealth                     |                 |
|-----------------------------------------------------------------|-------------------------------|--|----------------------------|-----------------|
|                                                                 | Management                    |  | 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 <sup>(a)</sup>                          | (46)                          |  | (8)                        | (54)            |
| Other                                                           | 1                             |  | -                          | 1               |
| <b>Market value of assets under management at June 30, 2008</b> | <b>\$ 1,032<sup>(b)</sup></b> |  | <b>\$ 81<sup>(c)</sup></b> | <b>\$ 1,113</b> |

(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 <sup>(a)</sup> | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 2Q08 vs. |      | Year-to-date |                     | YTD08 vs. YTD07 |
|------------------------------------------------------|---------------------|------|------|------|------|----------|------|--------------|---------------------|-----------------|
|                                                      |                     |      |      |      |      | 1Q08     | 2Q07 | 2008         | 2007 <sup>(a)</sup> |                 |
| Revenue:                                             |                     |      |      |      |      |          |      |              |                     |                 |

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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

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

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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 13<sup>th</sup> largest global asset manager, the 10<sup>th</sup> largest U.S. asset manager and the 7<sup>th</sup> 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

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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;

|                                                                  |                     |          |          |          | 2Q08 vs. |      | Year-to-date |          | YTD08 vs.           |       |
|------------------------------------------------------------------|---------------------|----------|----------|----------|----------|------|--------------|----------|---------------------|-------|
| <i>presented on an FTE basis</i> <sup>(a)</sup>                  | 2Q07 <sup>(b)</sup> | 3Q07     | 4Q07     | 1Q08     | 2Q08     | 1Q08 | 2Q07         | 2008     | 2007 <sup>(b)</sup> | YTD07 |
| <b>Revenue:</b>                                                  |                     |          |          |          |          |      |              |          |                     |       |
| 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   |
| <b>Noninterest expense</b>                                       |                     |          |          |          |          |      |              |          |                     |       |
| (ex. intangible amortization)                                    | 53                  | 139      | 142      | 142      | 142      | -    | 168          | 284      | 104                 | 173   |
| <b>Income before taxes</b>                                       |                     |          |          |          |          |      |              |          |                     |       |
| (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%  |
| <b>Pre-tax operating margin</b>                                  |                     |          |          |          |          |      |              |          |                     |       |
| (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%  |

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at period-end (in billions)

(a) *In the second quarter of 2008, the financial results of MIBB and MUNB were reclassified from Wealth Management to the Other segment. This change reflects the sale of MIBB 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.*

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*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.



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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,<br>2007 <sup>(a)</sup> | Sept. 30,<br>2007      | Dec. 31,<br>2007 | March 31,<br>2008 | June 30,<br>2008 |
|-----------------------------------------------------------------------------------------------------|---------------------------------|------------------------|------------------|-------------------|------------------|
| Market value of assets under custody and administration at period-end (in trillions) <sup>(b)</sup> | \$ 16.7 <sup>(c)</sup>          | \$ 22.7 <sup>(c)</sup> | \$ 23.1          | \$ 23.1           | \$ 23.0          |
| Market value of securities on loan at period-end (in billions) <sup>(d)</sup>                       | 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,

|                                                   | 2Q08 vs.            |        | Year-to-date |        | YTD08 vs. |      |      |          |                     |       |
|---------------------------------------------------|---------------------|--------|--------------|--------|-----------|------|------|----------|---------------------|-------|
| presented on an FTE basis)                        | 2Q07 <sup>(a)</sup> | 3Q07   | 4Q07         | 1Q08   | 2Q08      | 1Q08 | 2Q07 | 2008     | 2007 <sup>(a)</sup> | 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    |

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

(a) Legacy The Bank of New York only.

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*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.

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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.

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Year-to-date

**YTD08***unless otherwise noted;***vs.***presented on an FTE basis)*

|                                                          | 2Q07 <sup>(a)</sup> | 3Q07      | 4Q07      | 1Q08      | 2Q08      | 1Q08 | 2Q07 | 2008      | 2007 <sup>(a)</sup> | YTD07 |
|----------------------------------------------------------|---------------------|-----------|-----------|-----------|-----------|------|------|-----------|---------------------|-------|
| <b>Revenue:</b>                                          |                     |           |           |           |           |      |      |           |                     |       |
| 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    |
| <b>Noninterest expense</b>                               |                     |           |           |           |           |      |      |           |                     |       |
| (ex. intangible amortization)                            | 240                 | 291       | 324       | 317       | 347       | 9    | 45   | 664       | 469                 | 42    |
| <b>Income before taxes</b>                               |                     |           |           |           |           |      |      |           |                     |       |
| (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%    |
| <b>Pre-tax operating margin</b>                          |                     |           |           |           |           |      |      |           |                     |       |
| (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    |
| Depository receipts outstanding<br><i>(in billions)</i>  | 779                 | 1,178     | 1,360     | 1,221     | 961       | (21) | 23   | 961       | 779                 | 23    |
| Depository receipt trading value<br><i>(in billions)</i> | 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 depository for more than 1,300 American and global depository 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;  
depository receipts issuance and cancellation volume;  
corporate actions impacting depository 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 Depository Receipts, partially offset by the credit monitoring charge related to lost tapes



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recorded in the second quarter of 2008. The sequential increase primarily reflects seasonality in Depository 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 Depository 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 Depository 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 Depository 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.

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| <i>presented on an FTE basis)</i>                          | 2Q07 <sup>(a)</sup> | 3Q07      | 4Q07      | 1Q08      | 2Q08      | 1Q08 | 2Q07 | 2008      | 2007 <sup>(a)</sup> | YTD08<br>vs.<br>YTD07 |
|------------------------------------------------------------|---------------------|-----------|-----------|-----------|-----------|------|------|-----------|---------------------|-----------------------|
| <b>Revenue:</b>                                            |                     |           |           |           |           |      |      |           |                     |                       |
| 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.

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Through our affiliate, BNY ConvergeEx 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

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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.

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| <i>presented on an FTE basis)</i>                             | 2Q07 <sup>(a)</sup> | 3Q07       | 4Q07       | 1Q08       | 2Q08       | 1Q08 | 2Q07 | 2008       | 2007 <sup>(a)</sup> | YTD08<br>vs.<br>YTD07 |
|---------------------------------------------------------------|---------------------|------------|------------|------------|------------|------|------|------------|---------------------|-----------------------|
| <b>Revenue:</b>                                               |                     |            |            |            |            |      |      |            |                     |                       |
| 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%                   |
| <b>Pre-tax operating margin (ex. intangible amortization)</b> | <b>48%</b>          | <b>46%</b> | <b>50%</b> | <b>50%</b> | <b>50%</b> |      |      | <b>50%</b> | <b>50%</b>          |                       |
| 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

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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

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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,

|                                                                                              | <b>Year-to-date</b> |       |         |       |          |         |                     |
|----------------------------------------------------------------------------------------------|---------------------|-------|---------|-------|----------|---------|---------------------|
| <i>presented on an FTE basis</i> <sup>(a)</sup>                                              | 2Q07 <sup>(b)</sup> | 3Q07  | 4Q07    | 1Q08  | 2Q08     | 2008    | 2007 <sup>(b)</sup> |
| 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)                |

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|                                         |           |           |           |           |           |           |           |
|-----------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 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 MIBB and MUNB were reclassified from Wealth Management to the Other segment.

This change reflects the sale of MIBB 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.



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*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.

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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

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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*

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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

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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 for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. Under SFAS 159, fair value is used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in fair value recognized in income. Effective Jan. 1, 2008, we elected the fair value option for \$390 million of existing loans and unfunded loan commitments where the related credit risks are partially managed utilizing other financial instruments which are fair valued in earnings and, as a result, recorded a cumulative effect decrease to retained earnings of \$36 million. See Note 13 in the Notes to Consolidated Financial Statements for additional disclosure regarding SFAS 159.

The methodology used to test our investment securities for OTTI is included in the section on investment securities in balance sheet review.



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

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

*Goodwill and other intangibles*

We record all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles, and other intangibles, at fair value as required by FASB Statements No. 141 and No. 142 ( SFAS 141 and SFAS 142 ), *Business Combinations and Goodwill and Other Intangible Assets*. Goodwill (\$16.6 billion at June 30, 2008) and indefinite-lived intangible assets (\$2.7 billion at June 30, 2008) are not amortized but are subject to annual tests for impairment or more often if events or circumstances indicate they may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount.

The initial recording of goodwill, indefinite-lived intangibles, and other intangibles requires subjective judgments concerning estimates of the fair value of acquired assets and liabilities.

The goodwill impairment test is performed in two phases. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure would be performed. That additional procedure would compare the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. Indefinite-lived intangible assets are evaluated for impairment at least annually by comparing their fair value to their carrying value. Other intangible assets (\$3.6 billion at June 30, 2008) are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is based on undiscounted cash flow projections.

Fair value may be determined using market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other determinants. Estimated cash flows may extend far into the future and, by their nature, are difficult to determine over an extended timeframe. Factors that

may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates and specific industry or market sector conditions. Other key judgments in accounting for intangibles include useful life and classification between goodwill and indefinite-lived intangibles or other intangibles which require amortization. See Note 5 of the Notes to Consolidated Financial Statements for additional information regarding intangible assets.

*Pension accounting*

The Company has defined benefit pension plans covering approximately 25,200 U.S. employees and approximately 4,400 non-U.S. employees.

Legacy The Bank of New York has one qualified and two non-qualified defined benefit pension plans in the U.S. and five outside the U.S. As of Dec. 31, 2007, the U.S. plans accounted for 75% of the projected benefit obligation.

In addition to its pension plans, legacy The Bank of New York has an Employee Stock Ownership Plan ( ESOP ). Benefits payable under the U.S. qualified pension plan are offset by the equivalent value of benefits earned under the ESOP.

Legacy Mellon Financial has two qualified and several non-qualified defined benefit pension plans in the U.S. and two outside the U.S. As of Dec. 31, 2007, the U.S. plans accounted for 87% of the projected benefit obligation.

A number of key assumption and measurement date values determine pension expense. The key elements include the long-term rate of return on plan assets, the discount rate, the market-related value of plan assets, and for the legacy The Bank of New York qualified U.S. plan the price used to value stock in the ESOP. Since 2005, these key elements have varied as follows:





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of New York only*except per share*

| <i>amounts)</i>                                    | 2008     | 2007                   | 2006     | 2005     |
|----------------------------------------------------|----------|------------------------|----------|----------|
| Domestic plans:                                    |          |                        |          |          |
| Long-term rate of return on plan assets            | 8.00%    | 8.00%                  | 7.88%    | 8.25%    |
| Discount rate                                      | 6.38     | 6.00                   | 5.88     | 6.00     |
| Market-related value of plan assets <sup>(a)</sup> | \$ 3,628 | \$ 1,352               | \$ 1,324 | \$ 1,502 |
| ESOP stock price per share <sup>(a)</sup>          | \$ 47.15 | \$ 34.85               | \$ 30.46 | \$ 30.67 |
| Net U.S. pension credit/(expense)                  | N/A      | \$ 16 <sup>(c)</sup>   | \$ (26)  | \$ (17)  |
| All other net pension credit/(expense)             | N/A      | \$ (12) <sup>(d)</sup> | (12)     | \$ (9)   |
| Total net pension credit/(expense) <sup>(b)</sup>  | N/A      | \$ 4                   | \$ (38)  | \$ (26)  |

N/A not applicable

*(a) See Note 1 Summary of Significant Accounting and Reporting Policies in the Company's 2007 Annual Report.**(b) Pension benefits expense includes discontinued operations expense of \$6 million in 2006 and 2005.**(c) Includes a \$21 million credit for legacy Mellon Financial plans based on a discount rate of 6.25% as of July 1, 2007, and a long-term rate of return on plan assets of 8.25%.**(d) Includes \$4 million of expense for legacy Mellon Financial's foreign plans.*

The discount rate for U.S. pension plans was determined after reviewing a number of high quality long-term bond indices whose yields were adjusted to match the duration of the Company's pension liability. We also reviewed the results of several models that matched bonds to our pension cash flows. After reviewing the various indices and models, we selected a discount rate of 6.38% as of Dec. 31, 2007. The discount rates for foreign pension plans are based on high quality corporate

bonds rates in countries that have an active corporate bond market. In those countries with no active corporate bond market, discount rates are based on local government bond rates plus a credit spread.

Our expected long-term rate of return on plan assets is based on anticipated returns for each asset class. Anticipated returns are weighted for the target allocation for each asset class. Anticipated returns are based on forecasts for prospective returns in the equity and fixed income markets, which should track the long-term historical returns for these markets. We also consider the growth outlook for U.S. and global economies, as well as current and prospective interest rates.

The market-related value of plan assets also influences the level of pension expense. Differences between expected and actual returns are recognized over five years to compute an actuarially derived market-related value of plan assets. For the legacy Mellon Financial plans, the market-related value of assets was set equal to the assets' market value as of July 1, 2007. The averaging of actuarial gains and losses for the legacy Mellon Financial plan assets will be phased in over the next five years.

Unrecognized actuarial gains and losses are amortized over the future service period of active employees if they exceed a threshold amount. The Company currently has \$173 million of unrecognized losses which are being amortized.

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

**Pension expense**

| <i>(dollar amounts in millions except per share amounts)</i> | Increase in pension expense |          | (Decrease) in pension expense |           |
|--------------------------------------------------------------|-----------------------------|----------|-------------------------------|-----------|
|                                                              | (100) bps                   | (50) bps | 50 bps                        | 100 bps   |
| Long-term rate of return on plan assets                      |                             |          |                               |           |
| Change in pension expense                                    | \$ 46.3                     | \$ 23.3  | \$ (23.2)                     | \$ (46.1) |
| Discount rate                                                | (50) bps                    | (25) bps | 25 bps                        | 50 bps    |
| Change in pension expense                                    | \$ 20.9                     | \$ 10.4  | \$ (9.5)                      | \$ (18.0) |
| Market-related value of plan assets                          | (20.00)%                    | (10.00)% | 10.00%                        | 20.00%    |
| Change in pension expense                                    | \$ 138.6                    | \$ 62.8  | \$ (40.2)                     | \$ (81.8) |
| ESOP stock price per share                                   | \$ (10)                     | \$ (5)   | \$ 5                          | \$ 10     |
| Change in pension expense                                    | \$ 11.5                     | \$ 5.5   | \$ (5.2)                      | \$ (9.9)  |

*bps 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)**Consolidated balance sheet review**

Total assets were \$201.2 billion at June 30, 2008 and \$197.7 billion at Dec. 31, 2007. Total shareholders' equity was \$28.6 billion at June 30, 2008, compared with \$29.4 billion at Dec. 31, 2007. The increase in assets from Dec. 31, 2007 primarily reflects deposit growth. The decrease in shareholders' equity reflects higher unrealized mark-to-market losses in the securities portfolio.

Interest-bearing deposits with banks and federal funds sold and securities purchased under resale agreements totaled \$54.0 billion or 27% of assets at June 30, 2008, compared with \$43.4 billion, or 22% of assets at Dec. 31, 2007. This increase in liquid assets reflects deposit growth.

Investment securities were \$44.3 billion or 22% of assets at June 30, 2008, compared with \$48.7 billion or 25% of assets at Dec. 31, 2007. The decrease in investment securities primarily relates to higher unrealized securities losses as well as paydowns in the mortgage-backed securities portfolio.

Loans were \$50.6 billion or 25% of assets at June 30, 2008, compared with \$50.9 billion or 26% of assets at Dec. 31, 2007. The decrease in loan levels was primarily due to the sale of M1BB in June 2008.

*Investment securities*

The following table shows the distribution of our securities portfolio:

**Investment securities (at fair value)**

| <i>(in millions)</i>                    | <b>June 30,<br/>2008</b> | Dec. 31,<br>2007 |
|-----------------------------------------|--------------------------|------------------|
| Fixed income securities:                |                          |                  |
| Mortgage and asset-backed securities    | <b>\$ 40,134</b>         | \$ 44,934        |
| Corporate debt                          | <b>547</b>               | 560              |
| Short-term money market instruments     | <b>442</b>               | 452              |
| U.S. treasury securities                | <b>622</b>               | 437              |
| U.S. government agencies <sup>(a)</sup> | <b>685</b>               | 778              |
| State and political subdivisions        | <b>768</b>               | 721              |
| Other foreign debt                      | <b>302</b>               | 298              |
| Subtotal fixed income securities        | <b>43,500</b>            | 48,180           |
| Equity securities:                      |                          |                  |
| Money market or fixed income funds      | <b>685</b>               | 406              |
| Other                                   | <b>88</b>                | 103              |
| Subtotal equity securities              | <b>773</b>               | 509              |
| Total investment securities             | <b>\$ 44,273</b>         | \$ 48,689        |

*(a) Included in "Other" in the core securities portfolio table on page 45.*

At June 30, 2008, our investment securities portfolio totaled \$44.3 billion and consisted of our core securities portfolio of \$41.5 billion and our TRFC portfolio of \$2.8 billion. Total investment securities were \$48.7 billion at Dec. 31, 2007, reflecting our core portfolio of \$45.2 billion and

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\$3.5 billion in our TRFC portfolio. Average investment securities were \$45.1 billion in the second quarter of 2008, compared with \$48.3 billion in the first quarter of 2008.

The unrealized net of tax loss on our total securities available for sale portfolio was \$1.8 billion at June 30, 2008, which was comprised of \$1.5 billion in our core portfolio and \$338 million in our TRFC portfolio. The unrealized net of tax loss in the core portfolio includes \$48 million related to securities available for sale for which the valuation fell within level 3 of the SFAS 157 hierarchy. See Note 12 in the Notes to Consolidated Financial Statements for an explanation of SFAS 157 fair value hierarchy. The unrealized net of tax loss at March 31, 2008 was \$1.8 billion which was comprised of \$1.5 billion in our core portfolio and \$266 million in our TRFC portfolio. The unrealized net of tax loss increased slightly in the second quarter of 2008 compared with the first quarter of 2008 due to higher interest rates, partially offset by narrower credit spreads. The unrealized net of tax loss on our securities available-for-sale portfolio decreased our adjusted tangible common equity to assets ratio by 93 basis points at June 30, 2008.

At June 30, 2008, our core securities portfolio continued to remain highly rated, with 93% of our securities rated AAA and 4% rated AA. We continue to have the ability and intent to hold our investment securities until any temporary impairment is recovered, or until maturity.

We routinely test our investment securities for OTTI. Almost all mortgage-backed securities included in our investment securities portfolio are valued using dealer quotes and vendor prices. Economic models, in conjunction with dealer quotes and vendor prices, are used to determine whether an OTTI has occurred on these securities. A primary driver of the economic model for mortgage-backed securities is the assumption of a peak-to-trough decline in home prices. The peak-to-trough assumption is determined by using several

The Bank of New York Mellon Corporation 43

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independent sources, including: forecasts of future home price appreciation rates, housing sales data, housing inventory levels, and other significant housing market trends, as well as the forward curve for interest rates. If an OTTI has occurred, the difference between the carrying value and the fair value is charged to earnings. At June 30, 2008, we assumed an additional 17% decline in national home prices over the next two years and estimated the impact it would have on the cash flows underlying the individual securities. As a result, we impaired certain securities and wrote them down to current market value and recorded a \$152 million pre-tax securities loss associated with OTTI. See below for a further description of the losses on these securities:

\$72 million related to securities backed by Alt-A loans. At June 30, 2008, our Alt-A portfolio was 99% AAA-rated and 1% AA-rated. At origination, the portfolio's weighted-average FICO score was 716 and its weighted-average LTV was 74%. Approximately 50% of the total portfolio is supported by better performing fixed-rate collateral. The Alt-A portfolio's weighted-average current credit enhancement is approximately 13%. Approximately 2% of the Alt-A portfolio represents option adjustable rate mortgages ( ARMS ). At June 30, 2008, the option ARMS were all rated AAA.

\$50 million related to ABS CDOs. At June 30, 2008, the amortized cost/fair value of our total ABS CDOs was \$93 million. The amortized cost/fair value of this portfolio, net of OTTI, was 24% of par at June 30, 2008. At June 30, 2008, \$14 million (fair value) of ABS CDOs are included in trading assets and \$79 million (amortized cost) are included in securities available for sale. The CDO securities are included in level 3 in the fair value hierarchy as described in Note 12 Fair Value Measurement in the Notes to Consolidated Financial Statements.

\$30 million related to HELOCs in the TRFC portfolio resulting from both a deterioration of specific securities combined with weakening credit support due to below investment grade ratings of certain bond insurers. The HELOC securities in the TRFC portfolio are tested for impairment based on the quality of the underlying security and the condition of the monoline insurer providing credit support. Securities were deemed impaired if we expected they would not be repaid in full without the support of the insurer and the insurer was rated below investment grade.

At June 30, 2008, our core portfolio included \$144 million of SIV securities. These securities were carried at 66% of par and are included in other securities in the core portfolio below. On Jan. 8, 2008, we were notified of an enforcement action against the SIV related to the securities. This enforcement action will likely result in the liquidation of the SIV. We expect to receive an in-kind vertical slice of the underlying assets held by the SIV upon liquidation. The underlying assets held by the SIV were rated 56% AAA, 11% AA, 5% A and 28% other at June 30, 2008.

At June 30, 2008, the fair value of the SIV securities was determined by reviewing the assets underlying the securities. The underlying assets were priced primarily using broker quotes and vendor prices. The SIV securities are included in level 3 in the fair value hierarchy as described in Note 12 Fair Value Measurement in Notes to Consolidated Financial Statements.

At June 30, 2008, the combined fair value of our core and TRFC subprime mortgage securities portfolios was \$1.3 billion with 85% of the portfolios rated AA or higher. The core portfolio is primarily comprised of vintages from 2005 or earlier. The TRFC portfolio is primarily comprised of vintages originated in 2006 and 2007. The weighted-average current credit enhancement on these portfolios was approximately 35% at June 30, 2008.

We have discontinued accruing interest on \$280 million of securities that have incurred other than temporary impairment, including \$266 million in the available-for-sale portfolio and \$14 million in the trading portfolio, due to uncertainty about collecting the carrying value. In the second quarter of 2008, we received \$7 million and \$31 million of interest and principal payments, respectively on these securities. No securities were sold from the



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

available-for-sale portfolio in the second quarter of 2008.

Below are the securities in our core portfolio, at fair value, which incorporates our unrealized loss by credit rating:

**Credit ratings for**

**core securities portfolio**

| June 30, 2008<br>(dollar amounts in millions)      | Variable and |            |          | Subprime<br>Mortgage<br>Securities | Commercial<br>Mortgage-<br>Backed<br>Securities | Asset-Backed<br>Securities<br>CDOs | European<br>Floating<br>Rate Notes | Other        | Total      | %    |
|----------------------------------------------------|--------------|------------|----------|------------------------------------|-------------------------------------------------|------------------------------------|------------------------------------|--------------|------------|------|
|                                                    | Agency       | Alt-A      | Prime    |                                    |                                                 |                                    |                                    |              |            |      |
| AAA                                                | \$ 10,456    | \$ 6,542   | \$ 6,929 | \$ 173                             | \$ 2,740                                        | \$ 16                              | \$ 8,741                           | \$ 2,837     | \$ 38,434  | 93%  |
| AA                                                 | -            | 52         | 27       | 737                                | 85                                              | 18                                 | 159                                | 650          | 1,728      | 4    |
| A                                                  | -            | -          | 18       | 171                                | -                                               | 8                                  | -                                  | 475          | 672        | 2    |
| Other                                              | -            | 32         | -        | 17                                 | -                                               | -                                  | -                                  | 229          | 278        | 1    |
| Total fair value                                   | \$ 10,456    | \$ 6,626   | \$ 6,974 | \$ 1,098                           | \$ 2,825                                        | \$ 42                              | \$ 8,900                           | \$ 4,191 (a) | \$ 41,112  | 100% |
| Amortized cost less write-downs                    | \$ 10,503    | \$ 7,694   | \$ 7,370 | \$ 1,390                           | \$ 2,929                                        | \$ 79                              | \$ 9,245                           | \$ 4,305     | \$ 43,515  |      |
| Mark-to-market unrealized gain/(loss)<br>(pre-tax) | \$ (47)      | \$ (1,068) | \$ (396) | \$ (292)                           | \$ (104)                                        | \$ (37)                            | \$ (345)                           | \$ (114)     | \$ (2,403) |      |
| Percent of total fair value                        | 25%          | 16%        | 17%      | 3%                                 | 7%                                              | - %                                | 22%                                | 10%          | 100%       |      |

(a) Excludes \$0.4 billion of unrated investments that principally support our asset management activities.

The effective duration of our mortgage and asset-backed securities in the core portfolio at June 30, 2008 was approximately 2.37 years.

Below are the securities in the TRFC portfolio, at fair value, which incorporates our unrealized loss by credit rating:

**Credit ratings for the**

**TRFC portfolio**

| June 30, 2008<br>(dollar amounts in millions) | Variable and |          |       | Subprime<br>Mortgage<br>Securities | Credit Cards | Home<br>Equity Lines<br>of Credit | Other Asset-<br>Backed Securities | Total    | %   |
|-----------------------------------------------|--------------|----------|-------|------------------------------------|--------------|-----------------------------------|-----------------------------------|----------|-----|
|                                               | Agency       | Alt-A    | Prime |                                    |              |                                   |                                   |          |     |
| AAA                                           | \$ 95        | \$ 1,110 | \$ 11 | \$ 192                             | \$ -         | \$ 128                            | \$ 20                             | \$ 1,556 | 57% |
| AA                                            | -            | -        | -     | 33                                 | 38           | 109                               | 27                                | 207      | 7   |
| A                                             | -            | -        | -     | -                                  | 670          | 144                               | -                                 | 814      | 30  |

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|                                                 |        |          |        |         |         |          |        |          |      |
|-------------------------------------------------|--------|----------|--------|---------|---------|----------|--------|----------|------|
| Other                                           | -      | -        | -      | 17      | -       | 140      | -      | 157      | 6    |
| Total fair value                                | \$ 95  | \$ 1,110 | \$ 11  | \$ 242  | \$ 708  | \$ 521   | \$ 47  | \$ 2,734 | 100% |
| Amortized cost less write-downs                 | \$ 96  | \$ 1,456 | \$ 12  | \$ 273  | \$ 744  | \$ 669   | \$ 50  | \$ 3,300 |      |
| Mark-to-market unrealized gain/(loss) (pre-tax) | \$ (1) | \$ (346) | \$ (1) | \$ (31) | \$ (36) | \$ (148) | \$ (3) | \$ (566) |      |
| Percent of total fair value                     | 3%     | 41%      | -%     | 9%      | 26%     | 19%      | 2%     | 100%     |      |

Included in our securities portfolio are the following securities that have a credit enhancement through a guarantee by a monoline insurer:

### Investment securities guaranteed

| by monoline insurers                          | June 30,                | Dec. 31, |
|-----------------------------------------------|-------------------------|----------|
| <i>(in millions)</i>                          | 2008                    | 2007     |
| Core portfolio:                               |                         |          |
| Municipal securities                          | \$ 615                  | \$ 660   |
| Mortgage-backed securities                    | 214                     | 237      |
| Total core portfolio                          | 829                     | 897      |
| TRFC portfolio                                | 508                     | 802      |
| Total fair value                              | \$ 1,337 <sup>(a)</sup> | \$ 1,699 |
| Amortized cost less write-downs               | \$ 1,491                | \$ 1,616 |
| Mark-to-market unrealized gain/loss (pre-tax) | \$ (154)                | \$ 83    |

(a) The par value guaranteed by the monoline insurers was \$1.6 billion.

At June 30, 2008, these securities were rated 23% AAA, 44% AA, and 33% other. In all cases, when purchasing the securities, we reviewed the credit quality of the underlying securities, as well as the insurer. Securities backed by home equity lines of credit, included in the TRFC portfolio above, represent approximately 32% of the securities rated below A.



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| <b>Total loans</b>   | <b>June 30,</b> | <b>Dec. 31,</b> |
|----------------------|-----------------|-----------------|
| <i>(in billions)</i> | <b>2008</b>     | <b>2007</b>     |
| Period-end:          |                 |                 |
| Non-margin           | \$ 45.1         | \$ 45.7         |
| Margin               | 5.5             | 5.2             |
| Total                | \$ 50.6         | \$ 50.9         |
| Quarterly average:   |                 |                 |
| Non-margin           | \$ 41.4         | \$ 41.8         |
| Margin               | 5.8             | 5.3             |
| Total                | \$ 47.2         | \$ 47.1         |

At June 30, 2008, total exposures were \$111.1 billion, down from \$114.9 billion at Dec. 31 2007, reflecting decreased exposure to financial institutions and the sale of MIBB. Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios make up 67% of our total lending exposure.

The following table provides additional details on our credit exposures and outstandings for continuing operations at June 30, 2008 compared to Dec. 31, 2007.

| <b>Total exposure - consolidated</b>  | <b>June 30, 2008</b> |                             |                       | <b>Dec. 31, 2007</b> |                             |                       |
|---------------------------------------|----------------------|-----------------------------|-----------------------|----------------------|-----------------------------|-----------------------|
| <i>(in billions)</i>                  | <b>Loans</b>         | <b>Unfunded commitments</b> | <b>Total exposure</b> | <b>Loans</b>         | <b>Unfunded commitments</b> | <b>Total exposure</b> |
| Non-margin loans:                     |                      |                             |                       |                      |                             |                       |
| Financial institutions                | \$ 13.6              | \$ 28.8                     | \$ 42.4               | \$ 14.1              | \$ 32.2                     | \$ 46.3               |
| Commercial                            | 4.8                  | 27.0                        | 31.8                  | 6.0                  | 27.8                        | 33.8                  |
| Subtotal institutional                | 18.4                 | 55.8                        | 74.2                  | 20.1                 | 60.0                        | 80.1                  |
| Wealth management loans and mortgages | 5.0                  | 2.2                         | 7.2                   | 4.5                  | 1.9                         | 6.4                   |
| Lease financing                       | 4.5                  | 0.1                         | 4.6                   | 4.9                  | 0.1                         | 5.0                   |
| Commercial real estate                | 3.0                  | 1.9                         | 4.9                   | 3.0                  | 1.7                         | 4.7                   |
| Other residential mortgages           | 2.9                  | -                           | 2.9                   | 3.1                  | -                           | 3.1                   |
| Other                                 | 11.3                 | 0.5                         | 11.8                  | 10.1                 | 0.3                         | 10.4                  |
| Subtotal non-margin loans             | 45.1                 | 60.5                        | 105.6                 | 45.7                 | 64.0                        | 109.7                 |
| Margin loans                          | 5.5                  | -                           | 5.5                   | 5.2                  | -                           | 5.2                   |
| Total                                 | \$ 50.6              | \$ 60.5                     | \$ 111.1              | \$ 50.9              | \$ 64.0                     | \$ 114.9              |

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Total loans were \$50.6 billion at June 30, 2008, compared with \$50.9 billion at Dec. 31, 2007. The decrease in total loans primarily reflects the sale of M1BB (\$1.1 billion), substantially offset by higher overdrafts. Average total loans were \$47.2 billion in the second quarter of 2008, compared with \$48.5 billion in the first quarter of 2008 and \$47.1 billion in the fourth quarter of 2007. The decrease in average loans sequentially reflects a decrease in short-term lending to financial institutions and the sale of M1BB. At June 30, 2008, we had less than \$20 million of subprime mortgages in our loan portfolio. These loans, which are included in other residential mortgages, were issued to support our Community Reinvestment Act requirements. Other loans are composed largely of overdrafts related to custody and securities clearance clients.

We have elected the fair value option under SFAS 159 for \$390 million of certain existing loans and unfunded loan commitments where the related credit risks are partially managed utilizing other financial instruments which are fair valued in earnings. On

July 1, 2008, \$280 million of the outstanding loans were repaid.

### *Financial institutions*

The financial institutions portfolio exposure was \$42.4 billion at June 30, 2008, compared to \$46.3 billion at Dec. 31, 2007. The change from Dec. 31, 2007 primarily reflects a decrease in exposure to the securities industry, asset managers and banks. Exposures to financial institutions are high quality with 88% meeting the investment grade equivalent criteria of our rating system. These exposures are generally short-term, with 69% expiring within one year and are frequently secured. For example, mortgage banking, securities industry, and asset managers often borrow against marketable securities held in custody.

Exposure to banks is largely to investment grade counterparties in developed countries. Non-investment grade bank exposures are short term in nature supporting our global trade finance and dollar

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clearing businesses in developing countries globally. As a conservative measure, our internal credit rating classification for international counterparties caps the rating based upon the sovereign rating of the country where the counterparty resides regardless of the credit rating of the counterparty or the underlying collateral.

The asset manager portfolio exposures are high quality with 94% meeting our investment grade equivalent ratings criteria. These exposures are generally short term liquidity facilities with the vast majority to regulated mutual funds. At June 30, 2008, we had \$58 million of senior loans to two SIVs, a decrease of \$14 million from March 31, 2008, reflecting repayments. We believe we are adequately reserved for any potential losses on this SIV exposure. This represents the extent of our loan exposure to SIVs.

Our mortgage banking exposures are 23% investment grade with the balance of our exposure extended on a secured basis. Subsequent to June 30, we reduced the exposure in this portfolio by 57%.

At June 30, 2008, insurance exposure in the table below includes \$239 million of direct credit exposure to six monoline financial guaranty insurers. Subsequent to June 30, 2008, our monoline exposure was reduced to \$215 million. We also extend facilities which provide liquidity, primarily for variable rate tax exempt securities wrapped by monoline insurers. The credit approval for these facilities is based on an assessment of the underlying tax exempt issuer and is not solely dependent upon the monoline.

The diversity of the financial institutions portfolio is shown in the following table:

| Financial institutions<br>portfolio exposure | June 30, 2008 |                      |                |             |             |         | Dec. 31, 2007        |                |  |
|----------------------------------------------|---------------|----------------------|----------------|-------------|-------------|---------|----------------------|----------------|--|
|                                              | Loans         | Unfunded commitments | Total exposure | % Inv grade | % due <1 yr | Loans   | Unfunded commitments | Total exposure |  |
| <i>(dollar amounts in billions)</i>          |               |                      |                |             |             |         |                      |                |  |
| Securities industry                          | \$ 6.8        | \$ 3.8               | \$ 10.6        | 91%         | 92%         | \$ 6.9  | \$ 5.2               | \$ 12.1        |  |
| Asset managers                               | 1.0           | 9.1                  | 10.1           | 94          | 85          | 1.2     | 9.9                  | 11.1           |  |
| Insurance                                    | 0.3           | 6.8                  | 7.1            | 98          | 30          | 0.2     | 7.2                  | 7.4            |  |
| Banks                                        | 4.1           | 2.7                  | 6.8            | 65          | 90          | 4.2     | 3.2                  | 7.4            |  |
| Government                                   | 0.1           | 3.3                  | 3.4            | 96          | 27          | 0.1     | 3.2                  | 3.3            |  |
| Mortgage banks                               | 0.6           | 0.1                  | 0.7            | 23          | 48          | 0.6     | 0.1                  | 0.7            |  |
| Other                                        | 0.7           | 3.0                  | 3.7            | 92          | 40          | 0.9     | 3.4                  | 4.3            |  |
| Total                                        | \$ 13.6       | \$ 28.8              | \$ 42.4        | 88%         | 69%         | \$ 14.1 | \$ 32.2              | \$ 46.3        |  |

*Commercial*

The commercial portfolio exposure decreased to \$31.8 billion at June 30, 2008, from \$33.8 billion at Dec. 31, 2007, primarily reflecting a decrease in exposure to the manufacturing industry. Approximately 83% of the portfolio is investment grade and 21% of the portfolio matures within one year. We continue to migrate towards a predominantly investment grade portfolio, with targeted exposure reductions over the next several years.

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We continue to actively monitor automotive industry exposure given ongoing weakness in the domestic automotive industry. At June 30, 2008, total exposures in our automotive portfolio included \$224 million of secured exposure to Big Three automotive manufacturers and a total of \$196 million to eleven suppliers.

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| Commercial portfolio exposure       | June 30, 2008 |                      |                |             |             |        | Dec. 31, 2007        |                |  |
|-------------------------------------|---------------|----------------------|----------------|-------------|-------------|--------|----------------------|----------------|--|
|                                     | Loans         | Unfunded commitments | Total exposure | % Inv grade | % due <1 yr | Loans  | Unfunded commitments | Total exposure |  |
| <i>(dollar amounts in billions)</i> |               |                      |                |             |             |        |                      |                |  |
| Media and telecom                   | \$ 1.1        | \$ 2.5               | \$ 3.6         | 67%         | 11%         | \$ 1.4 | \$ 2.8               | \$ 4.2         |  |
| Manufacturing                       | 1.2           | 8.1                  | 9.3            | 82          | 19          | 1.9    | 9.2                  | 11.1           |  |
| Energy and utilities                | 0.8           | 7.0                  | 7.8            | 95          | 6           | 1.0    | 6.4                  | 7.4            |  |
| Services and other                  | 1.7           | 9.4                  | 11.1           | 80          | 36          | 1.7    | 9.4                  | 11.1           |  |
| Total                               | \$ 4.8        | \$ 27.0              | \$ 31.8        | 83%         | 21%         | \$ 6.0 | \$ 27.8              | \$ 33.8        |  |

The table below summarizes the percent of the financial institutions and commercial exposures that are investment grade.

| Percent of the portfolios that are investment grade | June 30,            | Sept. 30, | Dec. 31, | March 31, | June 30, |
|-----------------------------------------------------|---------------------|-----------|----------|-----------|----------|
|                                                     | 2007 <sup>(a)</sup> | 2007      | 2007     | 2008      | 2008     |
| Financial institutions                              | 85%                 | 85%       | 88%      | 87%       | 88%      |
| Commercial                                          | 75%                 | 80%       | 82%      | 80%       | 83%      |

(a) Legacy The Bank of New York only.

**Wealth Management loans and mortgages**

Wealth Management loans and mortgages are primarily composed of loans to high-net-worth individuals, which are secured by marketable securities, and jumbo mortgages.

**Lease financings**

We utilize the leasing portfolio as part of our tax cash flow management strategy. The leasing portfolio consisted of non-airline exposures of \$4.4 billion and \$245 million of airline exposures at June 30, 2008. Approximately 95% of the non-airline exposure is investment grade, or investment grade equivalent.

At June 30, 2008, our \$245 million of exposure to the airline industry consisted of an \$18 million real estate lease exposure, as well as the airline-leasing portfolio which included \$85 million to major U.S. carriers, \$127 million to foreign airlines and \$15 million to U.S. regionals.

During the second quarter of 2008, the airline industry continued to face difficult operating conditions. Despite the industry's improved capacity, higher fuel prices combined with a weaker economic outlook in the second quarter of 2008 had a dampening effect on aircraft values in the secondary market. Because of these factors, we continue to maintain a sizable allowance for loan

losses against these exposures and to closely monitor the portfolio.

*Commercial real estate*

Real estate facilities are focused on experienced owners and are structured with moderate leverage based on existing cash flows.

Our commercial real estate lending activities include both construction facilities and medium-term loans. Our client base consists of experienced developers and long-term holders of real estate assets. Loans are approved on the basis of existing or projected cash flow, and supported by appraisals and knowledge of local market conditions. Development loans are structured with moderate leverage, and in most instances, involve some level of recourse to the developer. Our commercial real estate exposure totaled \$4.9 billion at June 30, 2008 compared with \$4.7 billion at Dec. 31, 2007. The increase primarily resulted from loans secured by residential and office buildings and loans to investment grade real estate investment trusts ( REITS ). At June 30, 2008, approximately 74% of our commercial real estate portfolio is secured. The secured portfolio is diverse by project type with approximately 36% secured by residential buildings, approximately 25% secured by office buildings, approximately 10% secured by retail properties, and 29 % by other categories. Approximately 83% of

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the unsecured portfolio is allocated to REITs under revolving credit agreements.

*Other residential mortgages*

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans. As noted above, at June 30, 2008, we had less than \$20 million of subprime mortgages included in this portfolio.

*Other loans*

Other loans are composed largely of overdrafts related to custody and securities clearance clients. Overdrafts occur on a daily basis in the custody and securities clearance business and are generally repaid within two business days.

*Asset quality and allowance for credit losses*

Over the past several years, we have improved our risk profile through greater focus on clients who are active users of our non-credit services, de-emphasizing broad-based loan growth. Our primary exposure to the credit risk of a customer consists of funded loans, unfunded formal contractual commitments to lend and overdrafts associated with clearing and settlement.

We have implemented the following institutional credit strategies to improve our credit risk profile:

Focus on investment grade names to support cross-selling;

Avoid single name/industry concentrations, using credit default swaps as appropriate. At June 30, 2008, we used credit default swaps to reduce exposure on \$1.492 billion of loans and commitments; and

At Dec. 31, 2007, we established a target of \$4.5 billion of exposure reduction. At June 30, 2008, we have reduced exposure by \$4.8 billion, exceeding the targeted \$4.5 billion. We will continue to review the portfolio to identify opportunities to minimize non-strategic lending activities and reduce risk.

**Allowance for credit losses**

| <i>(dollar amounts</i>             | <b>June 30,</b> | March 31, | Dec. 31,  | June 30,            |
|------------------------------------|-----------------|-----------|-----------|---------------------|
| <i>in millions)</i>                | <b>2008</b>     | 2008      | 2007      | 2007 <sup>(a)</sup> |
| Margin loans                       | \$ 5,489        | \$ 5,086  | \$ 5,210  | \$ 5,188            |
| Non-margin loans                   | 45,079          | 47,006    | 45,721    | 33,216              |
| Total loans                        | \$ 50,568       | \$ 52,092 | \$ 50,931 | \$ 38,404           |
| <b>Quarterly activity</b>          |                 |           |           |                     |
| Allowance for credit losses:       |                 |           |           |                     |
| Beginning balance                  | \$ 487          | \$ 494    | \$ 510    | \$ 425              |
| Adoption of SFAS 159               | -               | (10)      | -         | -                   |
| Sale of M1BB                       | (13)            | -         | -         | -                   |
| Provision for credit losses        | 25              | 16        | 20        | (15)                |
| Net (charge-off) recoveries        | (13)            | (13)      | (36)      | 5                   |
| Total allowance for credit losses  | \$ 486          | \$ 487    | \$ 494    | \$ 415              |
| Allowance for loan losses          | \$ 353          | \$ 314    | \$ 327    | \$ 282              |
| Allowance for unfunded commitments | 133             | 173       | 167       | 133                 |

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|                                                                    |              |       |       |       |
|--------------------------------------------------------------------|--------------|-------|-------|-------|
| Allowance for loan losses as a percent of total loans              | <b>0.70%</b> | 0.60% | 0.64% | 0.73% |
| Allowance for loan losses as a percent of non-margin loans         | <b>0.78</b>  | 0.67  | 0.72  | 0.85  |
| Total allowance for credit losses as a percent of total loans      | <b>0.96</b>  | 0.93  | 0.97  | 1.08  |
| Total allowance for credit losses as a percent of non-margin loans | <b>1.08</b>  | 1.04  | 1.08  | 1.25  |

*(a) Legacy The Bank of New York only.*

The total allowance for credit losses was \$486 million or 0.96% of total loans at June 30, 2008, compared with \$415 million, or 1.08% of total loans at June 30, 2007, \$487 million, or 0.93% of total loans at March 31, 2008, and \$494 million, or 0.97% of total loans at Dec. 31, 2007. The allowance for credit losses was flat compared with March 31, 2008, as the \$25 million provision for credit losses was primarily offset by the reduction in allowance related to the sale of M1BB (\$13 million) and commercial real estate loan charge-offs.

We had \$5.5 billion and \$5.1 billion of secured margin loans on our balance sheet at June 30, 2008 and March 31, 2008, respectively. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to these loans. As a result, we believe that the ratio of total allowance for credit losses to non-margin loans is a more appropriate metric to measure the adequacy of the reserve.

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The allowance for loan losses and the allowance for unfunded commitments consists of four elements:

- an allowance for impaired credits (nonaccrual commercial credits over \$1 million);
- an allowance for higher risk rated credits;
- an allowance for pass rated credits; and
- an unallocated allowance based on general economic conditions and risk factors in our individual markets.

The first element, impaired credits, is based on individual analysis of all nonperforming commercial credits over \$1 million. The allowance is measured by the difference between the recorded value of impaired loans and their impaired value. Impaired value is either the present value of the expected future cash flows from the borrower, the market value of the loan, or the fair value of the collateral.

The second element, higher risk rated credits, is based on the assignment of loss factors for each specific risk category of higher risk credits. We rate each credit in our portfolio that exceeds \$1 million and assign the credits to specific risk pools. A potential loss factor is assigned to each pool and an amount is included in the allowance equal to the product of the amount of the loan in the pool and the risk factor. Reviews of higher risk rated loans are conducted quarterly and the loan's rating is updated as necessary. We prepare a loss migration analysis and compare our actual loss experience to the loss factors on an annual basis to attempt to ensure the accuracy of the loss factors assigned to each pool.

The third element, pass rated credits, is based on our expected loss model. Borrowers are assigned to pools based on their credit ratings. The expected loss for each loan in a pool incorporates the borrower's credit rating, loss given default rating and maturity. The borrower's probability of default is derived from the associated credit rating. The loss given default incorporates a recovery expectation. Borrower ratings are reviewed at least semi-annually and are periodically mapped to third party databases, including rating agency and default and recovery databases, to ensure ongoing consistency and validity. Commercial loans over \$1 million are individually analyzed before being assigned a credit rating. We also apply this technique to our leasing and consumer portfolios.

At our subsidiary banks that provide credit to small businesses, exposures are pooled and reserves are established based on historic portfolio losses.

The fourth element, the unallocated allowance, is based on management's judgment regarding the following factors:

- Economic conditions including duration of the current cycle;
- Past experience including recent loss experience;
- Credit quality trends;
- Collateral values;
- Volume, composition, and growth of the loan portfolio;
- Specific credits and industry conditions;
- Results of bank regulatory and internal credit exams;
- Geopolitical issues and their impact on the economy; and
- Volatility and model risk.

Based on an evaluation of these four elements, including individual credits, historical credit losses, and global economic factors, we have allocated our allowance for credit losses on a continuing operations basis as follows:

**Allocation of****allowance for**

|                                       | <b>June 30,<br/>2008</b> | March 31,<br>2008 | Dec. 31,<br>2007 | June 30,<br>2007 <sup>(a)</sup> |
|---------------------------------------|--------------------------|-------------------|------------------|---------------------------------|
| <b>credit losses</b>                  |                          |                   |                  |                                 |
| Commercial                            | 55%                      | 57%               | 60%              | 62%                             |
| Other residential mortgages           | 12                       | 9                 | 5                | 5                               |
| Commercial real estate                | 6                        | 4                 | 4                | 2                               |
| Wealth management loans and mortgages | 3                        | 3                 | 3                | 2                               |
| Foreign                               | 2                        | 4                 | 5                | 1                               |
| Unallocated                           | 22                       | 23                | 23               | 28                              |
| Total                                 | 100%                     | 100%              | 100%             | 100%                            |

(a) Legacy The Bank of New York only.

The above allocation is inherently judgmental, and the entire allowance for credit losses is available to absorb credit losses regardless of the nature of the loss.

The increase in allowance for credit losses for other residential mortgages from March 31, 2008 resulted from an increase in the allowance allocated to residential mortgages reflecting the current market environment. The percentage of the unallocated allowance for credit losses was 22% at June 30, 2008, down from 23% at March 31, 2008 and 28%

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at June 30, 2007. The unallocated allowance reflects various factors in the current credit environment and is also available to, among other things, absorb further deterioration across all of our portfolios resulting from the current economic environment.

*Nonperforming assets*

| <b>Nonperforming assets</b>                            | <b>June 30,</b> | <b>March 31,</b> | <b>Dec. 31,</b> |
|--------------------------------------------------------|-----------------|------------------|-----------------|
| <i>(dollar amounts in millions)</i>                    | <b>2008</b>     | <b>2008</b>      | <b>2007</b>     |
| Loans:                                                 |                 |                  |                 |
| Commercial real estate                                 | \$ 106          | \$ 49            | \$ 40           |
| Foreign                                                | 60              | 78               | 87              |
| Other residential mortgages                            | 55              | 33               | 20              |
| Commercial                                             | 52              | 50               | 39              |
| Wealth management loans and mortgages                  | -               | -                | -               |
| Total nonperforming loans                              | 273             | 210              | 186             |
| Other assets owned                                     | 6               | 5                | 4               |
| Total nonperforming assets                             | \$ 279          | \$ 215           | \$ 190          |
| Nonperforming assets ratio                             | 0.6%            | 0.4%             | 0.4%            |
| Allowance for loan losses/nonperforming loans          | 129.3           | 149.5            | 175.8           |
| Allowance for loan losses/nonperforming assets         | 126.5           | 146.0            | 172.1           |
| Total allowance for credit losses/nonperforming loans  | 178.0           | 231.9            | 265.6           |
| Total allowance for credit losses/nonperforming assets | 174.2           | 226.5            | 260.0           |

The sequential quarter increase in nonperforming assets primarily resulted from higher commercial real estate loans, primarily in Florida, partially offset by \$10 million of charge-offs and a \$22 million increase in other residential mortgages, partially offset by \$14 million of payments from a loan to a foreign SIV.

The ratio of the allowance for loan losses to nonperforming assets was 126.5% at June 30, 2008, compared with 146.0% at March 31, 2008.

**Nonperforming assets****quarterly activity**

| <i>(in millions)</i>           | <b>June 30,</b> | <b>March 31,</b> | <b>Dec. 31,</b> |
|--------------------------------|-----------------|------------------|-----------------|
|                                | <b>2008</b>     | <b>2008</b>      | <b>2007</b>     |
| Balance at beginning of period | \$ 215          | \$ 190           | \$ 37           |
| Additions                      | 98              | 42               | 187             |
| Net charge-offs                | (13)            | (11)             | (33)            |
| Paydowns/sales                 | (22)            | (7)              | (4)             |
| Other                          | 1               | 1                | 3               |
| Balance at end of period       | \$ 279          | \$ 215           | \$ 190          |

Loans past due 90 days or more as to principal or interest totaled \$334 million at June 30, 2008, compared with \$326 million at March 31, 2008. Past due loans at June 30, 2008 were primarily comprised of loans to an asset manager that has filed for bankruptcy (see Legal Proceedings). These loans are well secured, largely by cash and high-grade fixed income securities, and are in the process of collection.

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Interest income would have increased by \$3.5 million and \$0.9 million for the second quarters of 2008 and 2007 if loans on nonaccrual status at June 30, 2008 and 2007 had been performing for the entire period. On a year-to-date basis, interest income would have increased by \$6.9 million and \$1.4 million for 2008 and 2007 had loans on nonaccrual status been performing for the entire period.

### *Impaired loans*

The following table sets forth information about our impaired loans. We use the discounted cash flow, collateral value, or market price methods for valuing our impaired loans.

| <b>Impaired loans</b>                                       | <b>June 30,</b> | March 31, | Dec. 31, | June 30,            |
|-------------------------------------------------------------|-----------------|-----------|----------|---------------------|
| <i>(in millions)</i>                                        | <b>2008</b>     | 2008      | 2007     | 2007 <sup>(a)</sup> |
| Impaired loans with an allowance                            | \$ <b>186</b>   | \$ 167    | \$ 141   | \$ 15               |
| Impaired loans without an allowance <sup>(b)</sup>          | <b>25</b>       | 6         | 17       | -                   |
| <b>Total impaired loans</b>                                 | <b>\$ 211</b>   | \$ 173    | \$ 158   | \$ 15               |
| Allowance for impaired loans <sup>(c)</sup>                 | \$ <b>37</b>    | \$ 28     | \$ 34    | \$ 2                |
| Average balance of impaired loans during quarter            | <b>136</b>      | 140       | 51       | 16                  |
| Interest income recognized on impaired loans during quarter | -               | -         | -        | 0.2                 |

*(a) Legacy The Bank of New York only.*

*(b) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under the accounting standard related to impaired loans.*

*(c) The allowance for impaired loans is included in the allowance for loan losses.*

### *Deposits*

Total deposits were \$127.2 billion at June 30, 2008, compared with \$118.1 billion at Dec. 31, 2007. The increase reflects growth in our securities servicing businesses and a spike in client deposits at June 30, 2008. Noninterest-bearing deposits were \$30.9

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billion at June 30, 2008, compared with \$32.4 billion at Dec. 31, 2007. Interest-bearing deposits were \$96.3 billion at June 30, 2008, compared with \$85.8 billion at Dec. 31, 2007. The increase in interest-bearing deposits primarily relates to foreign office deposits in our securities servicing businesses.

**Capital support agreements**

During the second quarter of 2008, we executed capital support agreements covering securities in two short-term net asset value ( NAV ) funds. One agreement, for \$18 million, covers SIV exposures in a Sterling-denominated NAV fund in the Asset Management segment. Other agreements, totaling \$28.6 million, provide capital support to a collective investment pool in the Asset Servicing segment. These agreements are in addition to the capital support agreement for the commingled short-term NAV fund ( CNAV ) Fund of \$55.5 million covering securities related to Whistle Jacket Capital/White Pine Financial, LLC ( Whistle Jacket ), in the Asset Servicing segment.

Under the capital support agreements referenced to above, we could provide capital in specified circumstances in varying maturities through June 2009. A previously disclosed capital support agreement for the CNAV Fund covering securities related to Thornburg Mortgage Capital Resources was canceled during the second quarter of 2008 resulting in a \$12 million credit recorded in other expense, which was partially offset by \$8 million of expense related to the current estimated fair value of the remaining capital support agreements.

Upon the sale or other disposition of a security covered by the capital support agreements ( Covered Security ), we are required to contribute capital that is the least of the following amounts: (i) the amount, if any, by which the amortized cost of a Covered Security exceeds the amount realized from the sale or other disposition of the Covered Security; (ii) the amount, if any, necessary to restore the net asset value per share of the fund to a specified threshold amount, or (iii) the remaining amount of the aggregate capital contribution limit, taking into account all prior contributions. We will not receive any consideration from the fund for the contributed capital, if any, under the agreements. The total expense that will be recorded over the term of the

agreement will be equal to the amount of total capital, if any, actually contributed to the NAV and CNAV Funds. On a case-by-case basis, depending on future circumstances, we could enter into further capital support agreements.

At June 30, 2008, the total of all CNAV Funds which are managed by our securities lending business had a balance of \$124 billion and included \$4.7 billion of senior notes issued by SIVs. At June 30, 2008, approximately 73% of these SIVs are bank-sponsored where the bank has committed to support the SIV. Virtually all of the bank-sponsored SIVs were rated AAA at June 30, 2008. At March 31, 2008, the total of all CNAV Funds which were managed by our securities lending businesses totaled \$147 billion and included \$7.3 billion of senior notes issued by SIVs. At March 31, 2008, approximately 70% of these SIVs were bank-sponsored.

The non-bank-sponsored SIV securities held in the CNAV Funds were rated AA at June 30, 2008. Approximately 54% of the securities issued by non-bank sponsored SIVs are scheduled to mature in 2008 and the remainder in the first quarter of 2009.

At June 30, 2008, short-term NAV funds in the Asset Management segment included approximately \$693 million of senior notes issued by SIVs, which represented approximately 2% of the assets of the short-term NAV funds in the Asset Management segment. Approximately 87% of these SIV securities have been issued by bank-sponsored SIVs and the sponsors have agreed to support the notes. Ninety percent of the \$693 million of SIV securities are scheduled to mature in 2008. We continue to monitor exposure to SIV senior note investments in funds we manage.

**Liquidity and dividends**

We maintain our liquidity through the management of our assets and liabilities, utilizing worldwide financial markets. The diversification of liabilities reflects our efforts to maintain flexibility of funding sources under changing market conditions. Stable core deposits from our securities servicing, wealth management and treasury services businesses are generated through our diversified network and managed with the use of trend studies and deposit pricing. The use of derivative products such as

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interest rate swaps and financial futures enhances liquidity by enabling us to issue long-term liabilities with limited exposure to interest rate risk. Liquidity also results from the maintenance of a portfolio of assets that can be easily sold and the monitoring of unfunded loan commitments, thereby reducing unanticipated funding requirements. Unrealized losses in the securities portfolio have not had an adverse impact on our liquidity. Liquidity is managed on both a consolidated basis and at The Bank of New York Mellon Corporation parent company ( Parent ).

Non-core sources of funds such as money market rate accounts, certificates of deposits greater than \$100,000, federal funds purchased and other borrowings were \$23.3 billion and \$12.7 billion on an average basis for the first six months of 2008 and 2007, respectively. The increase primarily reflects the merger with Mellon Financial. Average foreign deposits, primarily from our European-based securities servicing business, were \$69.8 billion and \$38.5 billion for the first six months of 2008 and 2007, respectively. The increase in foreign deposits reflects greater liquidity from our corporate trust and custody businesses, the merger with Mellon Financial and the transition of deposits in 2007 related to the Acquired Corporate Trust Business. Domestic savings and other time deposits were \$8.4 billion on an average basis for the first six months of 2008, compared with \$1.1 billion for the first six months of 2007. The increase reflects the merger with Mellon Financial and a large government agency deposit. A significant reduction in our securities servicing businesses would reduce our access to deposits.

Average payables to customers and broker-dealers were approximately \$5.0 billion for both the first six months of 2008 and 2007. Long-term debt averaged \$17.0 billion and \$9.5 billion for the first six months of 2008 and 2007, respectively. The increase in long-term debt reflects the merger with Mellon Financial. Average noninterest-bearing deposits increased to \$25.5 billion in the first six months of 2008 from \$15.1 billion in the first six months of 2007, reflecting the merger with Mellon Financial.

The Parent has four major sources of liquidity:

- dividends from its subsidiaries;
- the commercial paper market;
- a revolving credit agreement with third party financial institutions; and
- access to the capital markets.

At June 30, 2008, our bank subsidiaries had the ability to pay dividends of approximately \$1.464 billion to the Parent without the need for a regulatory waiver. This dividend capacity would increase in the remainder of 2008 to the extent of the banks' net income less dividends. At June 30, 2008, nonbank subsidiaries of the Parent had liquid assets of approximately \$1.0 billion. These assets could be liquidated and the proceeds delivered by dividend or loan to the Parent. On July 1, 2008, we reorganized our bank subsidiaries (see page 2). This reorganization had a nominal impact on the dividend capacity of the bank subsidiaries.

For the quarter ended June 30, 2008, the Parent's quarterly average commercial paper borrowings were \$29 million compared with \$69 million for the quarter ended June 30, 2007. The Parent had cash of \$3.0 billion at June 30, 2008, compared with \$4.4 billion at Dec. 31, 2007. Commercial paper outstanding issued by the Parent were \$25 million and \$65 million at June 30, 2008 and Dec. 31, 2007, respectively. Net of commercial paper outstanding, the Parent's cash position at June 30, 2008 decreased by \$1.3 billion compared with Dec. 31, 2007. The decrease in cash held by the Parent reflects repayment of long-term debt that matured in the first half of 2008. The Parent's liquidity target is to have sufficient cash on hand to meet its obligations over the next 12 months without the need to take dividends from its banks or issue debt.

We currently have a \$226 million credit agreement with 10 financial institutions that matures in October 2011. The fee on this facility depends on our credit rating and at June 30, 2008 was 6 basis points. The credit agreement requires us to maintain:

- shareholders' equity of \$5 billion;
- a ratio of Tier I capital plus the allowance for credit losses to nonperforming assets of at least 2.5;





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a double leverage ratio less than 1.3; and  
adequate capitalization of all our banks for regulatory purposes.

There were no borrowings under this facility at June 30, 2008.

We also have the ability to access the capital markets. In July 2007, we filed an S-3 shelf registration statement with the SEC covering the issuance of an unlimited amount of debt, common stock, preferred stock and trust preferred securities. Access to the capital markets is partially dependent on our credit ratings, which, as of July 1, 2008 were as follows:

**Debt ratings at July 1, 2008**

|                                     | Standard<br>&<br>Poor's | Moody's | Fitch    | Dominion<br>Bond<br>Rating<br>Service |
|-------------------------------------|-------------------------|---------|----------|---------------------------------------|
| <b>Parent:</b>                      |                         |         |          |                                       |
| Commercial paper                    | A-1+                    | P1      | F1+      | R-1 (middle)                          |
| Subordinated<br>long-term debt      | A+                      | Aa3     | A+       | A (high)                              |
| Senior long-term<br>debt            | AA-                     | Aa2     | AA-      | AA (low)                              |
| <b>The Bank of New York Mellon:</b> |                         |         |          |                                       |
| Long-term<br>deposits               | AA                      | Aaa     | AA       | AA                                    |
| <b>BNY Mellon N.A.:</b>             |                         |         |          |                                       |
| Long-term deposits                  | AA                      | Aaa     | AA       | AA                                    |
| Subordinated debt                   | AA-                     | Aa1     | A+       | AA (low)                              |
| <b>Outlook</b>                      | Stable                  | Stable  | Positive | Positive<br>(long-term)               |

During the second quarter of 2008, Standard & Poors upgraded the following debt ratings one grade: for the Parent, commercial paper, subordinated long-term debt and senior long-term debt; for The Bank of New York Mellon, long-term deposits; and for BNY Mellon, N.A., long-term deposits and subordinated debt. Following the July 1, 2008 reorganization of the banks, the rating agencies affirmed the ratings for The Bank of New York Mellon and BNY Mellon, N.A.

The Parent's major uses of funds are payment of dividends, principal and interest on its borrowings, acquisitions and additional investments in its subsidiaries. The Parent has \$1.4 billion of long-term debt that will become due in the second half of 2008.

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The Parent has the option to call \$611 million of subordinated debt in 2008, which it expects to call and refinance if market conditions are favorable. The Parent expects to refinance any debt it repays by issuing a combination of senior and subordinated debt. In the second quarter of 2008, \$1.2 billion of the Company's senior debt matured.

Double leverage is the ratio of investment in subsidiaries divided by our consolidated equity plus trust preferred securities. Our double leverage ratio at June 30, 2008 and 2007 was 102.53% and 101.41%, respectively. Our target double leverage ratio is a maximum of 120%. The double leverage ratio is monitored by regulators and rating agencies and is an important constraint on our ability to invest in our subsidiaries and to expand our businesses.

Pershing LLC, an indirect subsidiary of the Company, has committed and uncommitted lines of credit in place for liquidity purposes. The committed line of credit of \$655 million with nine financial institutions matures in March 2009. In the second quarter of 2008, the average borrowing against this line of credit was \$136 million. Pershing LLC has three separate uncommitted lines of credit amounting to \$1 billion in aggregate. Average daily borrowing under these lines was \$200 million, in aggregate, during the second quarter of 2008.

Pershing Limited, an indirect U.K.-based subsidiary of the Company, has committed and uncommitted lines of credit in place for liquidity purposes. The committed lines of credit of \$275 million with four financial institutions matures in March 2009. In the second quarter of 2008, there was no average borrowing against this line of credit. Pershing Limited has three separate uncommitted lines of credit amounting to \$250 million in aggregate. Average daily borrowing under these lines was \$110 million, in aggregate, during the second quarter of 2008.

### *Statement of cash flows*

Cash provided by operating activities was \$1.9 billion for the first six months of 2008, compared with \$1.0 billion provided by operating activities for the six months ended June 30, 2007. In the first half of 2008, earnings were a significant

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source of funds. Cash flows from operations in the first half of 2007 were principally the result of changes in trading activities and earnings, partially offset by change in accruals and other. In the first six months of 2008, cash used for investing activities was \$10.3 billion compared with \$23.2 billion in the first six months of 2007. In the first six months of 2008, changes in federal funds sold and securities purchased under resale agreements and change in interest-bearing deposits were a significant use of funds. In the first six months of 2007 purchases of securities available-for-sale, change in interest-bearing deposits and changes in federal funds sold and securities purchased under resale agreements were a significant use of funds.

Through June 30, 2008, cash provided by financing activities was \$7.7 billion, compared to \$22.6 billion in the first six months of 2007. In the first six months of 2008, deposits and the change in payables to customers and broker-dealers were a significant source of funds, partially offset by the change in commercial paper and repayments of long-term debt. In the first six months of 2007, deposits were a significant source of funds.

**Capital****Capital data**

(dollar amounts in millions)

except per share amounts;

|                                                                    | <b>June 30,<br/>2008</b> | Dec. 31,<br>2007 | June 30,<br>2007 <sup>(a)</sup> |
|--------------------------------------------------------------------|--------------------------|------------------|---------------------------------|
| <i>common shares in thousands</i>                                  |                          |                  |                                 |
| Average shareholders' equity to assets ratio                       | <b>14.54%</b>            | 13.61%           | 10.12%                          |
| <b>At period-end:</b>                                              |                          |                  |                                 |
| Total shareholders' equity                                         | <b>\$ 28,569</b>         | \$ 29,403        | \$ 11,829                       |
| Tangible common equity                                             | <b>\$ 5,731</b>          | \$ 6,670         | \$ 5,272                        |
| Tangible common equity to assets ratio <sup>(b)(c)</sup>           | <b>4.31%</b>             | 4.96%            | 4.53%                           |
| Adjusted for the DTL on tax deductible goodwill <sup>(b) (d)</sup> | <b>4.62%</b>             | 5.24%            | 4.90%                           |
| Adjusted tangible common equity to average assets ratio            | <b>4.44%</b>             | 5.09%            | 5.03%                           |
| Tier I capital ratio <sup>(c)</sup>                                | <b>9.33%</b>             | 9.32%            | 8.09%                           |
| Total (Tier I plus Tier II) capital ratio                          | <b>12.90%</b>            | 13.25%           | 12.07%                          |
| Leverage capital ratio                                             | <b>6.39%</b>             | 6.53%            | 6.37%                           |
| Book value per common share                                        | <b>\$ 24.93</b>          | \$ 25.66         | \$ 16.50                        |
| Tangible book value per common share                               | <b>\$ 5.00</b>           | \$ 5.82          | \$ 7.35                         |
| Dividend per share                                                 | <b>\$ 0.24</b>           | \$ 0.24          | \$ 0.23                         |
| Dividend yield                                                     | <b>2.5%</b>              | 2.0%             | 2.1%                            |

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|                                      |                  |           |           |
|--------------------------------------|------------------|-----------|-----------|
| Closing common stock price per share | <b>\$ 37.83</b>  | \$ 48.76  | \$ 43.93  |
| Market capitalization                | <b>\$ 43,356</b> | \$55,878  | \$ 31,495 |
| Common shares outstanding            | <b>1,146,070</b> | 1,145,983 | 717,000   |

(a) *Legacy The Bank of New York only.*

(b) *Common equity less goodwill and intangible assets plus the benefit of the deferred tax liability associated with tax deductible intangible assets divided by total assets less goodwill and intangible assets.*

(c) *Consolidated target ratios for Tier I and adjusted tangible common equity are 8.00% and 5.00%, respectively.*

(d) *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 associated with tax deductible goodwill. The regulators are also considering giving credit for deferred tax liabilities (DTL) in their capital computations. The deferred tax liability associated with tax deductible goodwill totaled \$548 million at June 30, 2008, \$495 million at Dec. 31, 2007 and \$445 million at June 30, 2007.*

Shareholders' equity was \$28.6 billion at June 30, 2008, compared with \$29.4 billion at Dec. 31, 2007. The decrease in shareholders' equity compared with Dec. 31, 2007 resulted from a \$1.8 billion unrealized, net of tax loss on our total securities available-for-sale portfolio at June 30, 2008. The unrealized net of tax loss at Dec. 31, 2007 was \$342 million. During the first half of 2008, we retained \$502 million of earnings. Accumulated other comprehensive income declined \$1.3 billion reflecting the decrease in the fair value of the securities portfolio. Included in shareholders' equity is a \$36 million decrease in retained earnings resulting from the adoption of SFAS 159, *The Fair*

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*Value Option for Financial Assets and Financial Liabilities*, and a \$21 million decrease in retained earnings from adopting EITF 06-4, *Postretirement Benefits Associated with Split-Dollar Life Insurance Arrangements*, and EITF 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements*.

In July 2008, we declared a quarterly common stock dividend of \$0.24 per share that was paid on Aug. 1, 2008, to shareholders of record as of the close of business on July 23, 2008.

In a non-taxable business combination, such as our merger with Mellon Financial, deferred tax liabilities are recorded in relation to identifiable intangible assets. The recording of this deferred tax liability results in an increase in goodwill equal to the amount of the deferred tax liability. Bank regulators and rating agencies adjust equity upward for the amount of this deferred tax liability since it is a liability for accounting purposes and will never require a cash settlement unless a sale occurs. As a result, we believe Tier I and adjusted tangible common equity should be our primary capital metrics.

The Tier I and adjusted tangible common equity ratios vary depending on the size of the balance sheet at quarter-end. The balance sheet size fluctuates from quarter to quarter based on levels of customer and market activity. In general, when servicing clients are more actively trading securities, deposit balances and the balance sheet as a whole are higher to finance these activities. The adjusted tangible common equity ratio is also impacted by credit spreads and interest rates on unrealized gains and losses among other factors.

Our Tier I capital ratio was 9.33% at June 30, 2008, compared with 8.76% at March 31, 2008. The Tier I ratio at June 30, 2008 was 133 basis points above our principal capital measure target for Tier I capital of 8%.

Our adjusted tangible common equity ratio was 4.31% at June 30, 2008, up from 4.14% at March 31, 2008. Both ratios were lower than our targeted capital ratio of 5%, reflecting the unrealized mark-to-market securities loss mentioned above. The unrealized net of tax loss on our securities available for sale portfolio decreased the adjusted tangible common equity ratio by 93 basis points at June 30, 2008. If we also adjust the tangible common equity ratio for the deferred tax liability on tax deductible goodwill, the adjusted tangible common equity ratio would have been 4.62% at June 30, 2008.

We are comfortable with the current adjusted tangible common equity ratio given our ability to generate meaningful capital in coming quarters.

A billion dollar change in risk-weighted assets changes the Tier I ratio by approximately 7 basis points while a \$100 million change in common equity changes the Tier I ratio by approximately 8 basis points.

A billion dollar change in assets changes the adjusted tangible common equity ratio by approximately 2 basis points while a \$100 million change in common equity changes the adjusted tangible common equity ratio by approximately 6 basis points.

*Capital adequacy*

Regulators establish certain levels of capital for bank holding companies and banks, including the Company and our bank subsidiaries, in accordance with established quantitative measurements. For the Parent to maintain its status as a financial holding company, our bank subsidiaries must, among other things, qualify as well capitalized. In addition, major bank holding companies such as the Parent are expected by the regulators to be well capitalized.

As of June 30, 2008 and 2007, the Parent and our bank subsidiaries were considered well capitalized on the basis of the ratios (defined by regulation) of Total and Tier I capital to risk-weighted assets and leverage (Tier I capital to average assets), which are shown below.



**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)**Consolidated and primary bank subsidiaries capital ratios**

|                                 | June 30, 2008 |                      |                  | Dec. 31, 2007 |                      |                  | June 30, 2007 <sup>(a)</sup> |                      |
|---------------------------------|---------------|----------------------|------------------|---------------|----------------------|------------------|------------------------------|----------------------|
|                                 | Consolidated  | The Bank of New York | Mellon Bank N.A. | Consolidated  | The Bank of New York | Mellon Bank N.A. | Consolidated                 | The Bank of New York |
| Tier I <sup>(b) (c)</sup>       | 9.33%         | 8.57%                | 8.61%            | 9.32%         | 8.24%                | 8.49%            | 8.09%                        | 7.95%                |
| Total capital <sup>(c)(d)</sup> | 12.90         | 12.16                | 11.81            | 13.25         | 11.82                | 12.14            | 12.07                        | 10.87                |
| Leverage <sup>(c)</sup>         | 6.39          | 5.44                 | 7.59             | 6.53          | 5.64                 | 8.06             | 6.37                         | 6.33                 |

(a) Legacy The Bank of New York only.

(b) Tier I capital consists, generally, of common equity, trust-preferred securities (subject to limitations in 2009), and certain qualifying preferred stock, less goodwill and most other intangibles.

(c) For a banking institution to qualify as well capitalized, its Tier I, Total (Tier I plus Tier II) and leverage capital ratios must be at least 6%, 10% and 5%, respectively. To qualify as adequately capitalized, Tier I, Total and leverage capital ratios must be at least 4%, 8% and 3%.

(d) Total capital consists of Tier I capital plus Tier II capital. Tier II capital consists, generally, of certain qualifying preferred stock and subordinated debt and a portion of the allowance for credit losses.

At June 30, 2008, we had approximately \$1.7 billion of trust preferred securities outstanding, net of issuance cost. On March 1, 2005, the Board of Governors of the Federal Reserve System adopted a final rule that allows the continued limited inclusion of trust preferred securities in the Tier I capital of bank holding companies. Under the final rule, we will be subject to a 15% limit in the amount of trust preferred securities that can be included in Tier I capital, net of goodwill, less any related deferred tax liability.

Amounts in excess of these limits will be included in Tier II capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of quantitative limits. Under the final rule, all of our trust preferred securities qualified for inclusion in Tier I capital at June 30, 2008. We also expect all of our trust preferred securities to qualify as Tier I capital at March 31, 2009. The Company and our bank subsidiaries are expected to remain well capitalized under the final rule.

The following table presents the components of our risk-based capital and risk-adjusted assets at June 30, 2008, Dec. 31, 2007 and June 30, 2007.

**Risk-based and leverage****capital ratios <sup>(a)</sup>**

| (in millions)               | June 30, 2008 | Dec. 31, 2007 | June 30, 2007 <sup>(b)</sup> |
|-----------------------------|---------------|---------------|------------------------------|
| Tier I capital              |               |               |                              |
| Common shareholders' equity | \$ 28,569     | \$ 29,403     | \$ 11,829                    |

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|                                             |            |            |           |
|---------------------------------------------|------------|------------|-----------|
| Trust-preferred securities                  | 1,733      | 2,030      | 1,150     |
| Adjustments for:                            |            |            |           |
| Goodwill & other intangibles <sup>(c)</sup> | (20,888)   | (20,718)   | (6,405)   |
| Pensions                                    | 177        | 246        | 248       |
| Securities valuation allowance              | 1,814      | 339        | 80        |
| Merchant banking investment                 | (51)       | (41)       | (24)      |
| Total Tier I capital                        | 11,354     | 11,259     | 6,878     |
| Qualifying unrealized equity security gains | -          | 2          | 4         |
| Qualifying subordinate debt                 | 3,862      | 4,257      | 2,967     |
| Qualifying allowance for credit losses      | 486        | 494        | 415       |
| Tier II capital                             | 4,348      | 4,753      | 3,386     |
| Total risk-based capital                    | \$ 15,702  | \$ 16,012  | \$ 10,264 |
| Total risk-adjusted assets                  | \$ 121,758 | \$ 120,866 | \$ 85,006 |

(a) On a regulatory basis.

(b) Legacy The Bank of New York only.

(c) Includes a deferred tax liability of \$1.96 billion at June 30, 2008, \$2.01 billion at Dec. 31, 2007 and \$149 million at June 30, 2007 associated with tax deductible identifiable intangible assets.

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The fair value and notional amounts of our financial

instruments held for trading purposes at June 30,

2008 and Dec. 31, 2007 are as follows:

| Trading account<br>(in millions)                     | June 30, 2008      |                           |             | Dec. 31, 2007      |            |             |
|------------------------------------------------------|--------------------|---------------------------|-------------|--------------------|------------|-------------|
|                                                      | Notional<br>Amount | Fair value <sup>(a)</sup> |             | Notional<br>Amount | Fair value |             |
|                                                      |                    | Assets                    | Liabilities |                    | Assets     | Liabilities |
| Interest rate contracts:                             |                    |                           |             |                    |            |             |
| Futures and forward contracts                        | \$ 112,814         | \$ -                      | \$ 26       | \$ 81,738          | \$ -       | \$ 95       |
| Swaps                                                | 368,497            | 2,481                     | 1,921       | 363,809            | 2,295      | 1,655       |
| Written options                                      | 183,611            | -                         | 409         | 188,480            | -          | 675         |
| Purchased options                                    | 174,549            | 50                        | -           | 160,739            | 187        | -           |
| Foreign exchange contracts:                          |                    |                           |             |                    |            |             |
| Swaps                                                | 4,144              | -                         | -           | 3,479              | -          | -           |
| Written options                                      | 4,176              | -                         | 93          | 7,177              | -          | 176         |
| Purchased options                                    | 4,811              | 133                       | -           | 6,974              | 137        | -           |
| Commitments to purchase<br>and sell foreign exchange | 330,052            | 1,232                     | 1,087       | 306,018            | 1,184      | 1,156       |
| Debt securities                                      | -                  | 1,550                     | 663         | -                  | 1,665      | 213         |
| Credit derivatives                                   | 1,677              | 31                        | 1           | 2,260              | 61         | 3           |
| Equity securities and derivatives                    | 15,277             | 514                       | 267         | 9,565              | 877        | 604         |
| Total return swaps                                   | 135                | 1                         | 1           | -                  | -          | -           |
| Commodity and other derivatives                      | -                  | -                         | -           | -                  | 14         | -           |
| Total trading account                                |                    | \$ 5,992                  | \$ 4,468    |                    | \$ 6,420   | \$ 4,577    |

(a) Derivative financial instruments are reported net of cash collateral received and paid of \$356 million and \$540 million, respectively, at June 30, 2008. Such amounts for Dec. 31, 2007 were not material.

Our trading activities are focused on acting as a market maker for our customers. The risk from these market making activities and from our own positions is managed by our traders and limited in total exposure as described below.

We manage trading risk through a system of position limits, a value at risk ( VAR ) methodology based on a Monte Carlo simulation, stop loss advisory triggers, and other market sensitivity measures. Risk is monitored and reported to senior management by a separate unit on a daily basis. Based on certain assumptions, the VAR methodology is designed to capture the potential overnight pre-tax dollar loss from adverse changes in fair values of all trading positions. The calculation assumes a one-day holding period for most instruments, utilizes a 99% confidence level, and incorporates the non-linear characteristics of options. The VAR model is the basis for the economic capital calculation, which is allocated to lines of business for computing risk-adjusted performance.

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As the VAR methodology does not evaluate risk attributable to extraordinary financial, economic or other occurrences, the risk assessment process includes a number of stress scenarios based upon the risk factors in the portfolio and management's assessment of market conditions. Additional stress scenarios based upon historical market events are also tested. Stress tests, by their design, incorporate the impact of reduced liquidity and the breakdown of observed correlations. The results of these stress tests are reviewed weekly with senior management.

The following tables indicate the calculated VAR amounts for the trading portfolio for the periods indicated:

| <b>VAR <sup>(a)</sup></b><br><i>(in millions)</i> | <b>2nd Quarter 2008</b> |                |                | <b>June 30,</b> |
|---------------------------------------------------|-------------------------|----------------|----------------|-----------------|
|                                                   | <b>Average</b>          | <b>Minimum</b> | <b>Maximum</b> | <b>2008</b>     |
| Interest rate                                     | \$ 5.6                  | \$ 3.7         | \$ 8.4         | \$ 5.9          |
| Foreign exchange                                  | 2.6                     | 1.3            | 4.7            | 2.4             |
| Equity                                            | 2.4                     | 1.0            | 4.3            | 3.3             |
| Credit <sup>(b)</sup>                             | 2.9                     | 1.9            | 3.8            | 2.6             |
| Diversification                                   | (4.5)                   | N/M            | N/M            | (3.3)           |
| Overall portfolio                                 | 9.0                     | 6.5            | 12.9           | 10.9            |

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| <i>VAR (a)</i><br><i>(in millions)</i> | 1st Quarter 2008 |         |         | March 31, |
|----------------------------------------|------------------|---------|---------|-----------|
|                                        | Average          | Minimum | Maximum | 2008      |
| Interest rate                          | \$ 6.8           | \$ 3.5  | \$ 10.1 | \$ 5.4    |
| Foreign exchange                       | 2.1              | 1.0     | 4.3     | 2.2       |
| Equity                                 | 3.0              | 1.5     | 7.7     | 4.0       |
| Credit <sup>(b)</sup>                  | 4.0              | 1.9     | 6.3     | 4.0       |
| Diversification                        | (5.4)            | N/M     | N/M     | (4.8)     |
| Overall portfolio                      | 10.5             | 5.0     | 14.9    | 10.8      |

| <i>VAR (c)</i><br><i>(in millions)</i> | 2nd Quarter 2007 |         |         | June 30, |
|----------------------------------------|------------------|---------|---------|----------|
|                                        | Average          | Minimum | Maximum | 2007     |
| Interest rate                          | \$ 4.3           | \$ 2.5  | \$ 6.1  | \$ 3.3   |
| Foreign exchange                       | 1.3              | 0.8     | 2.6     | 1.1      |
| Equity                                 | 3.0              | 1.1     | 5.4     | 4.9      |
| Credit derivatives <sup>(b)</sup>      | 1.0              | 0.5     | 1.7     | 0.7      |
| Commodities                            | 2.4              | 1.3     | 3.7     | 1.7      |
| Diversification                        | (2.7)            | N/M     | N/M     | (2.2)    |
| Overall portfolio                      | 9.3              | 7.5     | 11.7    | 9.5      |

| <i>VAR (a)</i><br><i>(in millions)</i> | Year-to-date 2008 |         |         |
|----------------------------------------|-------------------|---------|---------|
|                                        | Average           | Minimum | Maximum |
| Interest rate                          | \$ 6.2            | \$ 3.5  | \$ 10.1 |
| Foreign exchange                       | 2.3               | 1.0     | 4.7     |
| Equity                                 | 2.7               | 1.0     | 7.7     |
| Credit <sup>(b)</sup>                  | 3.5               | 1.9     | 6.3     |
| Diversification                        | (5.0)             | N/M     | N/M     |
| Overall portfolio                      | 9.7               | 5.0     | 14.9    |

| <i>VAR (c)</i><br><i>(in millions)</i> | Year-to-date 2007 |         |         |
|----------------------------------------|-------------------|---------|---------|
|                                        | Average           | Minimum | Maximum |
| Interest rate                          | \$ 3.7            | \$ 1.9  | \$ 6.1  |
| Foreign exchange                       | 1.2               | 0.6     | 2.6     |
| Equity                                 | 2.5               | 0.8     | 6.6     |
| Credit derivatives <sup>(b)</sup>      | 1.0               | 0.5     | 1.7     |

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|                   |       |     |      |
|-------------------|-------|-----|------|
| Commodities       | 2.1   | -   | 3.7  |
| Diversification   | (2.4) | N/M | N/M  |
| Overall portfolio | 8.1   | 3.0 | 11.7 |

(a) VAR figures do not reflect the impact of the credit valuation adjustments resulting from the adoption of SFAS 157.

(b) VAR is intended to depict risk by underlying driver, i.e., interest rate, currency exchange rate, or counterparty credit quality. Accordingly, the credit derivatives risk category has been revised to credit.

(c) Legacy The Bank of New York only.

N/M - Because the minimum and maximum may occur on different days for different risk components, it is not meaningful to compute a portfolio diversification effect

During the second quarter of 2008, interest rate risk generated 42% of average VAR, credit risk generated 21% of average VAR, foreign exchange risk generated 19% of average VAR, and equity risk generated 18% of average VAR. During the second quarter of 2008, our daily trading loss did not exceed our calculated VAR amounts on any given day.

The following table of total daily revenue or loss captures trading volatility and shows the number of trading days in which our trading revenues fell within particular ranges during the past year.

The merger with Mellon Financial and the volatility in the markets since July 2007 have caused the number of days when our trading revenue exceeded \$5 million to increase significantly.

### Distribution of revenues-number of days

| Revenue range (in millions): | Quarter ended     |                |               |                | June 30, 2008         |
|------------------------------|-------------------|----------------|---------------|----------------|-----------------------|
|                              | June 30, 2007 (a) | Sept. 30, 2007 | Dec. 31, 2007 | March 31, 2008 |                       |
|                              |                   |                |               |                | <b>Number of days</b> |
| Less than \$(2.5)            | -                 | 2              | -             | 6              | <b>1</b>              |
| \$(2.5) - \$0                | 4                 | 5              | 3             | 3              | <b>1</b>              |
| \$0 - \$2.5                  | 33                | 16             | 8             | 6              | <b>11</b>             |
| \$2.5 - \$5.0                | 24                | 20             | 25            | 14             | <b>26</b>             |
| More than \$5.0              | 3                 | 20             | 26            | 33             | <b>25</b>             |

(a) Legacy The Bank of New York only and based on revenues before deducting share of joint venture partner, Susquehanna Trading.

**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 Bank of New York Mellon Corporation****foreign exchange and other trading-****counterparty risk ratings profile**

The table below summarizes the risk ratings for \$4.3 billion of our foreign exchange and interest rate derivative counterparty credit exposure.

The decline in the highest rating category in the second quarter of 2008 from March 31, 2008 primarily relates to the declining credit quality of CDO counterparties.

Under SFAS 157, foreign exchange and other trading activities revenue was reduced by \$4 million in the second quarter and \$37 million in the first half of 2008, as a result of declining credit quality of CDO counterparties, partially offset by widening of our credit spreads.

**Foreign exchange and other trading-**

| <b>counterparty risk ratings profile <sup>(a)</sup></b> | <b>June 30,<br/>2007 <sup>(b)</sup></b> | <b>Sept. 30,<br/>2007</b> | <b>Dec. 31,<br/>2007</b> | <b>March 31,<br/>2008</b> | <b>June 30,<br/>2008</b> |
|---------------------------------------------------------|-----------------------------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| Rating                                                  |                                         |                           |                          |                           |                          |
| AAA to AA-                                              | 71%                                     | 70%                       | 72%                      | 61%                       | <b>54%</b>               |
| A+ to A-                                                | 13                                      | 12                        | 13                       | 18                        | <b>18</b>                |
| BBB+ to BBB-                                            | 9                                       | 12                        | 10                       | 13                        | <b>17</b>                |
| Noninvestment grade                                     | 7                                       | 6                         | 5                        | 8                         | <b>11</b>                |
| Total                                                   | 100%                                    | 100%                      | 100%                     | 100%                      | <b>100%</b>              |

(a) Represents credit rating agency equivalent of internal credit ratings.

(b) Legacy The Bank of New York only.

**Asset/liability management**

Our diversified business activities include lending, investing in securities, accepting deposits, processing securities, raising money as needed to fund assets, and other transactions. The market risks from these activities are interest rate risk and foreign exchange risk. Our primary market risk is exposure to movements in U.S. dollar interest rates and certain foreign currency interest rates. We actively manage interest rate sensitivity. In addition to gap analysis, we use earnings simulation and discounted cash flow models to identify interest rate exposures.

An earnings simulation model is the primary tool used to assess changes in pre-tax net interest revenue. The model incorporates management's assumptions regarding interest rates, balance changes on core deposits, market spreads, changes

in the prepayment behavior of loans and securities, and the impact of derivative financial instruments used for interest rate risk management purposes. These assumptions have been developed through a combination of historical analysis and future expected pricing behavior. These

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assumptions are inherently uncertain, and, as a result, the earnings simulation model cannot precisely estimate net interest revenue or the impact of higher or lower interest rates on net interest revenue. Actual results may differ from projected results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management's strategies, among other factors.

We evaluate the effect on earnings by running various interest rate ramp scenarios up and down from a baseline scenario, which assumes no changes

**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)

in interest rates. These scenarios are reviewed to examine the impact of large interest rate movements. Interest rate sensitivity is quantified by calculating the change in pre-tax net interest revenue between the scenarios over a 12-month measurement period.

The following table shows net interest revenue sensitivity for the Company:

**Estimated changes in net interest revenue**

| <i>(dollar amounts in millions)</i> | <b>June 30, 2008</b> |              |
|-------------------------------------|----------------------|--------------|
|                                     | <b>\$</b>            | <b>%</b>     |
| up 200 bps vs. stable rate          | <b>\$ 23</b>         | <b>0.7%</b>  |
| up 100 bps vs. stable rate          | <b>12</b>            | <b>0.4</b>   |
| down 100 bps vs. stable rate        | <b>(9)</b>           | <b>(0.3)</b> |
| down 150 bps vs. stable rate        | <b>(39)</b>          | <b>(1.3)</b> |

*bps - basis points.*

The baseline scenario's Fed Funds rate in the June 30, 2008 analysis was 2.00%. The 100 basis point ramp scenarios assume short-term rates change 25 basis points in each of the next four quarters, the 200 basis point ramp scenarios assume a 50 basis point per quarter change and the 150 basis point ramp scenario assumes a 37.5 basis point per quarter change. The down 100 basis point and the down 150 basis point June 30, 2008 scenarios assume 10 year rates decline 43 and 93 basis points, respectively, which steepens the yield curve. Both the up 100 basis point and the up 200 basis point June 30, 2008 scenarios assume a flattening of the yield curve with 10-year rates rising 85 and 185 basis points, respectively. These scenarios do not reflect strategies that management could employ to limit the impact as interest rate expectations change. The previous table relies on certain critical assumptions including depositors' behavior related to interest rate fluctuations and the prepayment and extension risk in certain of our assets. To the extent that actual behavior is different from that assumed in the models, there could be a change in interest rate sensitivity.

**Off-balance-sheet financial instruments**

A summary of our off-balance sheet credit transactions, net of participations, at June 30, 2008 and Dec. 31, 2007 follows:

**Off-balance sheet credit risks**

| <i>(in millions)</i> | <b>June 30,<br/>2008</b> | <b>Dec. 31,<br/>2007</b> |
|----------------------|--------------------------|--------------------------|
|----------------------|--------------------------|--------------------------|

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|                                          |           |           |
|------------------------------------------|-----------|-----------|
| Lending commitments <sup>(a)</sup>       | \$ 45,997 | \$ 49,055 |
| Standby letters of credit <sup>(b)</sup> | 13,459    | 13,813    |
| Commercial letters of credit             | 1,070     | 1,167     |
| Securities lending indemnifications      | 567,027   | 618,487   |

*(a) Net of participations totaling \$576 million at June 30, 2008 and \$763 million at Dec. 31, 2007.*

*(b) Net of participations totaling \$2.397 billion at June 30, 2008 and \$2.576 billion at Dec. 31, 2007.*

For information regarding off-balance-sheet financial instruments, see Note 15 Commitments and contingent liabilities in the Notes to Consolidated Financial Statements.

### The Bank of New York historical earnings per share

In the merger transaction between The Bank of New York and Mellon Financial, The Bank of New York shareholders received 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. Mellon Financial shareholders received one share of the Company's common stock for each share of Mellon Financial common stock outstanding on the closing date of the merger.

Converting The Bank of New York's common stock into post-merger share count terms for the second quarter of 2007 increased diluted earnings per share and diluted earnings per share excluding merger and integration expenses by \$0.03 and increased diluted earnings per share excluding merger and integration expenses and intangible amortization by \$0.04.

The conversion increased basic earnings per share by \$0.04, increased basic earnings per share excluding merger and integration expenses by \$0.03, and increased basic earnings per share excluding merger and integration expenses and intangible amortization by \$0.04.

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**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)**Supplemental information Explanation of****non-GAAP financial measures**

Reported amounts are presented in accordance with GAAP. We believe that this supplemental non-GAAP information is useful to the investment community in analyzing the financial results and trends of our business. We believe this information facilitates comparisons with prior periods and reflects the principal basis on which our management internally monitors financial performance. These items are also excluded from our segment measures used internally to evaluate segment performance because management does not consider them to be particularly relevant or useful in evaluating the operating performance of our business segments.

| Reconciliation of net income and                                                       | 2Q08      |         | 1Q08      |                        | 2Q07 <sup>(a)</sup> |         |
|----------------------------------------------------------------------------------------|-----------|---------|-----------|------------------------|---------------------|---------|
| EPS - GAAP to non-GAAP                                                                 | After-tax | EPS     | After-tax | EPS                    | After-tax           | EPS     |
| <i>(in millions, except per share amounts)</i>                                         |           |         |           |                        |                     |         |
| Net income-GAAP                                                                        | \$ 309    | \$ 0.27 | \$ 746    | \$ 0.65                | \$ 445              | \$ 0.62 |
| Discontinued operations income (loss)                                                  | 7         | 0.01    | (3)       | -                      | (3)                 | -       |
| Continuing operations                                                                  | 302       | 0.26    | 749       | 0.65                   | 448                 | 0.62    |
| Merger and integration (M&I) expenses                                                  | 89        | 0.08    | 75        | 0.07                   | 32                  | 0.04    |
| SILO charge                                                                            | 380       | 0.33    | -         | -                      | -                   | -       |
| Continuing operations excluding M&I expenses and the SILO charge                       | 771       | 0.67    | 824       | 0.72                   | 480                 | 0.66    |
| Intangible amortization                                                                | 77        | 0.07    | 75        | 0.07                   | 19                  | 0.03    |
| Continuing operations before M&I expenses, the SILO charge and intangible amortization | \$ 848    | \$ 0.74 | \$ 899    | \$ 0.78 <sup>(b)</sup> | \$ 499              | \$ 0.69 |

<sup>(a)</sup> Legacy The Bank of New York only.

<sup>(b)</sup> Does not foot due to rounding.

| Reconciliation of net income and                                 | YTD08     |         | YTD07 <sup>(a)</sup> |                     |
|------------------------------------------------------------------|-----------|---------|----------------------|---------------------|
| EPS - GAAP to non-GAAP                                           | After-tax | EPS     | After-tax            | EPS                 |
| <i>(in millions, except per share amounts)</i>                   |           |         |                      |                     |
| Net income-GAAP                                                  | \$ 1,055  | \$ 0.92 | \$ 879               | \$ 1.22             |
| Discontinued operations income (loss)                            | 4         | -       | (6)                  | (0.01)              |
| Continuing operations                                            | 1,051     | 0.92    | 885                  | 1.23                |
| M&I expenses                                                     | 164       | 0.14    | 42                   | 0.06                |
| SILO charge                                                      | 380       | 0.33    | -                    | -                   |
| Continuing operations excluding M&I expenses and the SILO charge | 1,595     | 1.39    | 927                  | 1.28 <sup>(b)</sup> |

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|                                                                                           |            |             |        |         |
|-------------------------------------------------------------------------------------------|------------|-------------|--------|---------|
| Intangible amortization                                                                   | <b>152</b> | <b>0.13</b> | 35     | 0.05    |
| Continuing operations before M&I expenses,<br>the SILO charge and intangible amortization | \$ 1,747   | \$ 1.52     | \$ 962 | \$ 1.33 |
| (a) <i>Legacy The Bank of New York only.</i>                                              |            |             |        |         |
| (b) <i>Does not foot due to rounding.</i>                                                 |            |             |        |         |

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

**Return on common equity**

**and tangible common equity**

| <i>(dollars in millions)</i>                                                                                     | <b>2Q08</b>      | 1Q08      | 2Q07 <sup>(a)</sup> | <b>YTD08</b>     | YTD07 <sup>(a)</sup> |
|------------------------------------------------------------------------------------------------------------------|------------------|-----------|---------------------|------------------|----------------------|
| Average common shareholders' equity                                                                              | <b>\$ 28,507</b> | \$ 29,551 | \$ 11,566           | <b>\$ 29,029</b> | \$ 11,422            |
| Less: Average goodwill                                                                                           | <b>16,758</b>    | 16,581    | 5,304               | <b>16,670</b>    | 5,323                |
| Average intangible assets                                                                                        | <b>6,042</b>     | 6,227     | 1,229               | <b>6,134</b>     | 1,227                |
| Average tangible common shareholders' equity                                                                     | <b>\$ 5,707</b>  | \$ 6,743  | \$ 5,033            | <b>\$ 6,225</b>  | \$ 4,872             |
| Return on tangible common equity - GAAP <i>(annualized)</i>                                                      | <b>26.7%</b>     | 49.1%     | 37.3%               | <b>38.8%</b>     | 38.2%                |
| Return on tangible common equity excluding M&I expenses and the SILO charge <i>(annualized)</i>                  | <b>59.7</b>      | 53.6      | 39.8                | <b>56.4</b>      | 39.9                 |
| Return on common equity - GAAP <i>(annualized)</i>                                                               | <b>4.3</b>       | 10.2      | 15.5                | <b>7.3</b>       | 15.6                 |
| Return on common equity, excluding M&I expenses, the SILO charge and intangible amortization <i>(annualized)</i> | <b>12.0</b>      | 12.2      | 17.3                | <b>12.1</b>      | 17.0                 |

<sup>(a)</sup> Legacy The Bank of New York only.

**Reconciliation of total revenue - Fee and other**

**2Q08 vs.**

**revenue as a percentage of total revenue (FTE)**

| <i>(dollars in millions)</i>                                                           | <b>2Q08</b>     | 1Q08     | 2Q07 <sup>(a)</sup> | <b>1Q08</b> | 2Q07       | <b>YTD08</b>    | YTD07 <sup>(a)</sup> | <b>YTD08 vs. YTD07</b> |
|----------------------------------------------------------------------------------------|-----------------|----------|---------------------|-------------|------------|-----------------|----------------------|------------------------|
| Fee and other revenue - GAAP                                                           | <b>\$ 2,986</b> | \$ 2,978 | \$ 1,580            |             |            | <b>\$ 5,964</b> | \$ 3,055             |                        |
| Add: FTE increment - Fee and other revenue                                             | <b>11</b>       | 9        | -                   |             |            | <b>20</b>       | -                    |                        |
| Net interest revenue - GAAP                                                            | <b>411</b>      | 767      | 452                 |             |            | <b>1,178</b>    | 879                  |                        |
| Add: FTE increment - Net interest revenue                                              | <b>4</b>        | 6        | 2                   |             |            | <b>10</b>       | 4                    |                        |
| Total revenue (FTE)                                                                    | <b>3,412</b>    | 3,760    | 2,034               | <b>(9)%</b> | <b>68%</b> | <b>7,172</b>    | 3,938                | <b>82%</b>             |
| SILO charge                                                                            | <b>377</b>      | -        | -                   |             |            | <b>377</b>      | -                    |                        |
| Total revenue (FTE) - non-GAAP, excluding the SILO charge                              | <b>\$ 3,789</b> | \$ 3,760 | \$ 2,034            | <b>1%</b>   | <b>86%</b> | <b>\$ 7,549</b> | \$ 3,938             | <b>92%</b>             |
| Fee and other revenue as a percentage of total revenue (FTE)                           | <b>88%</b>      | 79%      | 78%                 |             |            | <b>83%</b>      | 78%                  |                        |
| Fee and other revenue as a percentage of total revenue (FTE) excluding the SILO charge | <b>79</b>       | 79       | 78                  |             |            | <b>79</b>       | 78                   |                        |

<sup>(a)</sup> Legacy The Bank of New York only.

**Reconciliation of income from continuing operations**

**2Q08**      1Q08      2Q07 <sup>(a)</sup>      **YTD08**      YTD07 <sup>(a)</sup>

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before income taxes - Pre-tax operating margin (FTE)

(dollars in millions)

|                                                                                                                                 |          |          |        |          |          |
|---------------------------------------------------------------------------------------------------------------------------------|----------|----------|--------|----------|----------|
| Income from continuing operations before income taxes - GAAP                                                                    | \$ 614   | \$ 1,110 | \$ 658 | \$ 1,724 | \$ 1,303 |
| FTE increment                                                                                                                   | 15       | 15       | 2      | 30       | 4        |
| Income from continuing operations before income taxes (FTE)                                                                     | 629      | 1,125    | 660    | 1,754    | 1,307    |
| M&I expenses                                                                                                                    | 149      | 126      | 47     | 275      | 62       |
| SILO charge                                                                                                                     | 377      | -        | -      | 377      | -        |
| Income from continuing operations before income taxes (FTE) excluding M&I expenses and the SILO charge                          | 1,155    | 1,251    | 707    | 2,406    | 1,369    |
| Intangible amortization                                                                                                         | 124      | 122      | 29     | 246      | 57       |
| Income from continuing operations before income taxes (FTE) excluding M&I expenses, the SILO charge and intangible amortization | \$ 1,279 | \$ 1,373 | \$ 736 | \$ 2,652 | \$ 1,426 |
| Pre-tax operating margin (FTE) <sup>(b)</sup>                                                                                   | 18%      | 30%      | 32%    | 24%      | 33%      |
| Pre-tax operating margin (FTE) <sup>(b)</sup> excluding M&I expenses, the SILO charge and intangible amortization               | 34       | 36       | 36     | 35       | 36       |

(a) Legacy The Bank of New York only.

(b) Income before taxes divided by total revenue.

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

**Recent accounting developments**

*SFAS No. 160 Noncontrolling Interests*

In December 2007, the FASB issued SFAS No. 160 ( SFAS 160 ), Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary (i.e., minority interest) and for the deconsolidation of a subsidiary. This statement applies to all entities that prepare consolidated financial statements. This statement clarifies that a noncontrolling interest in a subsidiary is to be part of the equity of the controlling group and is to be reported on the balance sheet within the equity section separately from the Company as a distinct item. The equity section of the balance sheet will be required to present equity attributable to both controlling and noncontrolling interests. The carrying amount of the noncontrolling interest is adjusted to reflect the change in ownership interest, and any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to the noncontrolling interest (i.e., as additional paid in capital). Any transaction that results in the loss of control of a subsidiary is considered a remeasurement event with any retained interest remeasured at fair value. The gain or loss recognized in income includes both the realized gain or loss related to the portion of the ownership interest sold and the gain or loss on the remeasurement to fair value of the retained interest.

We will adopt SFAS 160 on Jan. 1, 2009. This statement is to be applied prospectively as of Jan. 1, 2009, except for the presentation requirements. The disclosure requirements are to be applied retroactively for all periods presented. We are currently evaluating the impact of SFAS 160.

*SFAS No. 141 (revised) Business Combinations*

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ( SFAS 141 (R) ), Business Combinations. SFAS 141 (R) requires all acquisitions of businesses to be measured at the fair value of the business acquired rather than the cost

allocation process specified in SFAS No. 141. This statement requires deal costs, such as legal, investment banking, and due diligence costs to be expensed as incurred, lowers the threshold for recording acquisition contingencies and requires contingencies to be measured at fair value. This statement applies to business combination transactions completed subsequent to Dec. 31, 2008.

*FSP No. FAS 140-3 Repurchase Financing Agreements*

In February 2008, the FASB issued FASB Staff Position No. FAS 140-3 ( FSP 140-3 ), Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. FSP 140-3 provides guidance on the application of SFAS No. 140 to transactions involving a transfer of a financial asset and a repurchase financing of the previously transferred asset between the same counterparties. FSP 140-3 provides implementation guidance to differentiate between transfers and repurchase agreements that should be treated as a single transaction and transfers and repurchase agreements that are considered as two separate transactions. FSP 140-3 will be effective on Jan. 1, 2009. We are currently evaluating the impact of FSP 140-3.

*SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities*

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 requires entities to disclose the fair value of derivative instruments and their gains or losses in tabular format and information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and strategies and objectives for using derivative instruments. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. We expect to adopt SFAS 161 on Jan. 1, 2009.



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

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

#### *IFRS*

International Financial Reporting Standards (IFRS) are a set of standards and interpretations adopted by the International Accounting Standards Board. The SEC is currently considering a potential IFRS adoption process in the U.S., which would, in the near term, provide domestic issuers with an alternative accounting method and ultimately could replace U.S. GAAP reporting requirements with IFRS reporting requirements. The intention of this adoption would be to provide the capital markets community with a single set of high-quality, globally accepted accounting standards. The adoption of IFRS for U.S. companies with global operations would allow for streamlined reporting, allow for easier access to foreign capital markets and investments, and facilitate cross-border acquisitions, ventures or spin-offs. It is anticipated that the SEC will issue some guidance on this potential adoption by Dec. 31, 2008. We are currently investigating the implications to the Company should we be permitted to adopt.

#### *Adoption of new accounting standards*

For a discussion of the adoption of new accounting standards, see Note 3 of Notes to Consolidated Financial Statements.

### **Government monetary policies and Competition**

#### *Government monetary policies*

The Federal Reserve Board has the primary responsibility for U.S. monetary policy. Its actions have an important influence on the demand for credit and investments and the level of interest rates, and thus on the earnings of the Company.

#### *Competition*

The Company and its subsidiaries are subject to intense competition in all aspects and areas of our business. Our Asset Management and Wealth Management business segments experience competition from asset management firms; hedge funds; investment banking companies; bank and financial holding companies; banks, including trust banks; brokerage firms; and insurance companies.

These firms/companies can be domiciled domestically or internationally. Our Asset Servicing, Clearing Services and Treasury Services business segments compete with domestic and foreign banks offering institutional trust and custody products and cash management products and a wide range of technologically capable service providers, such as data processing and shareholder service firms and other firms that rely on automated data transfer and capture services for institutional and retail customers.

Many of our competitors, with the particular exception of bank and financial holding companies and banks, are not subject to regulation as extensive as the Company, and, as a result, may have a competitive advantage over us and our subsidiaries in certain respects.

As part of our business strategy, we seek to distinguish ourselves from competitors by the level of service we deliver to clients. We also believe that technological innovation is an important competitive factor, and, for this reason, have made and continue to make substantial investments in this area. The ability to recover quickly from unexpected events is a competitive factor, and we have devoted significant resources to this. See Risk Factors in our 2007 Annual Report on Form 10-K.

### **Website information**

Our website is [www.bnymellon.com](http://www.bnymellon.com). We currently make available the following information on our website as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the Securities and Exchange Commission (SEC).

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All of our SEC filings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, SEC Form 3, 4 and 5 and any proxy statement mailed in connection with the solicitation of proxies;

Our earnings releases and selected management conference calls and presentations; and

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Our Corporate Governance Guidelines and the charters of the Audit and Examining, Corporate Governance and Nominating, Human Resources and Compensation, and Risk Committees of our Board of Directors.

The contents of the website listed above are not incorporated into this Quarterly Report on Form 10-Q.

The SEC reports and the corporate governance guidelines and committee charters are available in print to any shareholder who requests them. Requests should be sent by email to [corpsecretary@bnymellon.com](mailto:corpsecretary@bnymellon.com) or by mail to the Secretary of The Bank of New York Mellon Corporation, One Wall Street, 9<sup>th</sup> Floor, NY, NY 10286.

**Table of Contents****Item 1. Financial Statements.****The Bank of New York Mellon Corporation (and its subsidiaries)****CONSOLIDATED INCOME STATEMENT (unaudited)**

| <i>(in millions, except per share amounts or unless otherwise noted)</i> | <b>June 30,<br/>2008</b> | Quarter ended<br>March 31,<br>2008 | June 30,<br>2007 <sup>(a)</sup> | Six months ended<br><b>June 30,<br/>2008</b> | June 30,<br>2007 <sup>(a)</sup> |
|--------------------------------------------------------------------------|--------------------------|------------------------------------|---------------------------------|----------------------------------------------|---------------------------------|
| <b>Fee and other revenue</b>                                             |                          |                                    |                                 |                                              |                                 |
| Securities servicing fees:                                               |                          |                                    |                                 |                                              |                                 |
| Asset servicing                                                          | \$ 868                   | \$ 897                             | \$ 427                          | \$ 1,765                                     | \$ 820                          |
| Issuer services                                                          | 444                      | 376                                | 367                             | 820                                          | 686                             |
| Clearing and execution services                                          | 270                      | 267                                | 291                             | 537                                          | 573                             |
| Total securities servicing fees                                          | 1,582                    | 1,540                              | 1,085                           | 3,122                                        | 2,079                           |
| Asset and wealth management fees                                         | 844                      | 842                                | 168                             | 1,686                                        | 319                             |
| Performance fees                                                         | 16                       | 20                                 | 21                              | 36                                           | 35                              |
| Foreign exchange and other trading activities                            | 308                      | 259                                | 117                             | 567                                          | 244                             |
| Treasury services                                                        | 130                      | 124                                | 55                              | 254                                          | 105                             |
| Distribution and servicing                                               | 110                      | 98                                 | 2                               | 208                                          | 4                               |
| Financing-related fees                                                   | 50                       | 48                                 | 61                              | 98                                           | 113                             |
| Investment income                                                        | 45                       | 23                                 | 39                              | 68                                           | 75                              |
| Securities gains (losses)                                                | (152)                    | (73)                               | (2)                             | (225)                                        | -                               |
| Other                                                                    | 53                       | 97                                 | 34                              | 150                                          | 81                              |
| Total fee and other revenue                                              | 2,986                    | 2,978                              | 1,580                           | 5,964                                        | 3,055                           |
| <b>Net interest revenue</b>                                              |                          |                                    |                                 |                                              |                                 |
| Interest revenue                                                         | 1,092                    | 1,656                              | 1,162                           | 2,748                                        | 2,183                           |
| Interest expense                                                         | 681                      | 889                                | 710                             | 1,570                                        | 1,304                           |
| Net interest revenue                                                     | 411                      | 767                                | 452                             | 1,178                                        | 879                             |
| Provision for credit losses                                              | 25                       | 16                                 | (15)                            | 41                                           | (30)                            |
| Net interest revenue after provision for credit losses                   | 386                      | 751                                | 467                             | 1,137                                        | 909                             |
| <b>Noninterest expense</b>                                               |                          |                                    |                                 |                                              |                                 |
| Staff                                                                    | 1,391                    | 1,352                              | 752                             | 2,743                                        | 1,472                           |
| Professional, legal and other purchased services                         | 280                      | 252                                | 132                             | 532                                          | 262                             |
| Net occupancy                                                            | 139                      | 129                                | 81                              | 268                                          | 160                             |
| Distribution and servicing                                               | 131                      | 130                                | 4                               | 261                                          | 8                               |
| Software                                                                 | 88                       | 79                                 | 57                              | 167                                          | 111                             |
| Furniture and equipment                                                  | 79                       | 79                                 | 54                              | 158                                          | 104                             |
| Business development                                                     | 75                       | 66                                 | 37                              | 141                                          | 67                              |
| Sub-custodian                                                            | 62                       | 61                                 | 42                              | 123                                          | 76                              |
| Communications                                                           | 33                       | 32                                 | 23                              | 65                                           | 42                              |
| Clearing and execution                                                   | 21                       | 9                                  | 44                              | 30                                           | 81                              |
| Other                                                                    | 186                      | 182                                | 87                              | 368                                          | 159                             |
| Subtotal                                                                 | 2,485                    | 2,371                              | 1,313                           | 4,856                                        | 2,542                           |
| Amortization of intangible assets                                        | 124                      | 122                                | 29                              | 246                                          | 57                              |
| Merger and integration expenses:                                         |                          |                                    |                                 |                                              |                                 |
| The Bank of New York Mellon Corporation                                  | 146                      | 121                                | 35                              | 267                                          | 39                              |
| Acquired Corporate Trust Business                                        | 3                        | 5                                  | 12                              | 8                                            | 23                              |
| Total noninterest expense                                                | 2,758                    | 2,619                              | 1,389                           | 5,377                                        | 2,661                           |
| <b>Income</b>                                                            |                          |                                    |                                 |                                              |                                 |
| Income from continuing operations before income taxes                    | 614                      | 1,110                              | 658                             | 1,724                                        | 1,303                           |
| Provision for income taxes                                               | 312                      | 361                                | 210                             | 673                                          | 418                             |
| Income from continuing operations                                        | 302                      | 749                                | 448                             | 1,051                                        | 885                             |
| Discontinued operations:                                                 |                          |                                    |                                 |                                              |                                 |
| Income (loss) from discontinued operations                               | 16                       | (5)                                | (4)                             | 11                                           | (9)                             |

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|                                                        |        |        |        |          |        |
|--------------------------------------------------------|--------|--------|--------|----------|--------|
| Provision (benefit) for income taxes                   | 9      | (2)    | (1)    | 7        | (3)    |
| Income (loss) from discontinued operations, net of tax | 7      | (3)    | (3)    | 4        | (6)    |
| Net income                                             | \$ 309 | \$ 746 | \$ 445 | \$ 1,055 | \$ 879 |

(a) Legacy The Bank of New York only.

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**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****CONSOLIDATED INCOME STATEMENT (unaudited) - continued**

| <i>(in millions, except per share amounts, or unless otherwise noted)</i> | Quarter ended          |                   |                                 | Six months ended |                                 |
|---------------------------------------------------------------------------|------------------------|-------------------|---------------------------------|------------------|---------------------------------|
|                                                                           | June 30,<br>2008       | March 31,<br>2008 | June 30,<br>2007 <sup>(a)</sup> | June 30,<br>2008 | June 30,<br>2007 <sup>(a)</sup> |
| <b>Earnings per share <sup>(a)</sup></b>                                  |                        |                   |                                 |                  |                                 |
| <i>Basic:</i>                                                             |                        |                   |                                 |                  |                                 |
| Income from continuing operations                                         | \$ 0.27                | \$ 0.66           | \$ 0.63                         | \$ 0.93          | \$ 1.24                         |
| Income (loss) from discontinued operations, net of tax                    | 0.01                   | -                 | -                               | -                | (0.01)                          |
| Net income                                                                | \$ 0.27 <sup>(b)</sup> | \$ 0.66           | \$ 0.62 <sup>(b)</sup>          | \$ 0.93          | \$ 1.24 <sup>(b)</sup>          |
| <i>Diluted:</i>                                                           |                        |                   |                                 |                  |                                 |
| Income from continuing operations                                         | \$ 0.26                | \$ 0.65           | \$ 0.62                         | \$ 0.92          | \$ 1.23                         |
| Income (loss) from discontinued operations, net of tax                    | 0.01                   | -                 | -                               | -                | (0.01)                          |
| Net income                                                                | \$ 0.27                | \$ 0.65           | \$ 0.62                         | \$ 0.92          | \$ 1.22                         |
| <b>Average shares outstanding <i>(in thousands)</i> <sup>(a)</sup></b>    |                        |                   |                                 |                  |                                 |
| Basic                                                                     | 1,135,153              | 1,134,280         | 713,187                         | 1,134,710        | 711,675                         |
| Common stock equivalents                                                  | 11,733                 | 13,626            | 9,694                           | 12,676           | 9,762                           |
| Diluted                                                                   | 1,146,886              | 1,147,906         | 722,881                         | 1,147,386        | 721,437                         |

*(a) Legacy The Bank of New York only. Earnings per share data and average shares outstanding for 2007 are presented in post-merger share count terms.*

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

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****CONSOLIDATED BALANCE SHEET (unaudited)**

| <i>(dollar amounts in millions, except per share amounts)</i>                                                                                  | <b>June 30,<br/>2008</b> | Dec. 31,<br>2007 |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------|
| <b>Assets</b>                                                                                                                                  |                          |                  |
| Cash and due from banks                                                                                                                        | \$ 5,990                 | \$ 6,635         |
| Interest-bearing deposits with banks                                                                                                           | 37,896                   | 34,312           |
| Federal funds sold and securities purchased under resale agreements                                                                            | 16,098                   | 9,108            |
| Securities:                                                                                                                                    |                          |                  |
| Held-to-maturity (fair value of \$1,882 and \$ 2,171)                                                                                          | 1,945                    | 2,180            |
| Available-for-sale                                                                                                                             | 42,391                   | 46,518           |
| Total securities                                                                                                                               | 44,336                   | 48,698           |
| Trading assets                                                                                                                                 | 5,992                    | 6,420            |
| Loans (includes \$276 at fair value at June 30, 2008)                                                                                          | 50,568                   | 50,931           |
| Reserve for loans losses                                                                                                                       | (353)                    | (327)            |
| Net loans                                                                                                                                      | 50,215                   | 50,604           |
| Premises and equipment                                                                                                                         | 1,698                    | 1,731            |
| Accrued interest receivable                                                                                                                    | 510                      | 739              |
| Goodwill                                                                                                                                       | 16,565                   | 16,331           |
| Intangible assets                                                                                                                              | 6,273                    | 6,402            |
| Other assets (includes \$669 at fair value at June 30, 2008)                                                                                   | 15,652                   | 16,676           |
| Total assets                                                                                                                                   | \$ 201,225               | \$ 197,656       |
| <b>Liabilities</b>                                                                                                                             |                          |                  |
| Deposits:                                                                                                                                      |                          |                  |
| Noninterest-bearing (principally domestic offices)                                                                                             | \$ 30,910                | \$ 32,372        |
| Interest-bearing deposits in domestic offices                                                                                                  | 22,832                   | 21,082           |
| Interest-bearing deposits in foreign offices                                                                                                   | 73,462                   | 64,671           |
| Total deposits                                                                                                                                 | 127,204                  | 118,125          |
| Federal funds purchased and securities sold under repurchase agreements                                                                        | 2,488                    | 2,193            |
| Trading liabilities                                                                                                                            | 4,468                    | 4,577            |
| Payables to customers and broker-dealers                                                                                                       | 9,596                    | 7,578            |
| Commercial paper                                                                                                                               | 25                       | 4,079            |
| Other borrowed funds                                                                                                                           | 1,110                    | 1,840            |
| Accrued taxes and other expenses                                                                                                               | 6,304                    | 8,101            |
| Other liabilities (including allowance for lending related commitments of \$133 and \$167, also includes \$232 at fair value at June 30, 2008) | 5,517                    | 4,887            |
| Long-term debt                                                                                                                                 | 15,944                   | 16,873           |
| Total liabilities                                                                                                                              | 172,656                  | 168,253          |
| <b>Shareholders' equity</b>                                                                                                                    |                          |                  |
| Common stock-par value \$0.01 per share; authorized 3,500,000,000 shares; issued 1,148,499,006 and 1,146,896,177 shares                        | 11                       | 11               |
| Additional paid-in capital                                                                                                                     | 20,126                   | 19,990           |
| Retained earnings                                                                                                                              | 10,463                   | 10,015           |
| Accumulated other comprehensive loss, net of tax                                                                                               | (1,919)                  | (574)            |
| Less: Treasury stock of 2,428,711 and 912,896 shares, at cost                                                                                  | (112)                    | (39)             |
| Total shareholders' equity                                                                                                                     | 28,569                   | 29,403           |
| Total liabilities and shareholders' equity                                                                                                     | \$ 201,225               | \$ 197,656       |

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)**

| <i>(in millions)</i>                                                                     | Six months ended<br>June 30, |                     |
|------------------------------------------------------------------------------------------|------------------------------|---------------------|
|                                                                                          | 2008                         | 2007 <sup>(a)</sup> |
| <b>Operating activities</b>                                                              |                              |                     |
| Net income                                                                               | \$ 1,055                     | \$ 879              |
| Income (loss) from discontinued operations                                               | 4                            | (6)                 |
| Income from continuing operations                                                        | 1,051                        | 885                 |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: |                              |                     |
| Provision for credit losses                                                              | 41                           | (30)                |
| Depreciation and amortization                                                            | 474                          | 226                 |
| Deferred tax (benefit) expense                                                           | (129)                        | 118                 |
| Securities losses (gains) and venture capital income                                     | 218                          | (33)                |
| Change in trading activities                                                             | 20                           | 2,152               |
| Change in accruals and other, net                                                        | 176                          | (2,274)             |
| Net cash provided by operating activities                                                | 1,851                        | 1,044               |
| <b>Investing activities</b>                                                              |                              |                     |
| Change in interest-bearing deposits with banks                                           | (2,885)                      | (9,545)             |
| Change in margin loans                                                                   | (279)                        | (21)                |
| Paydowns of securities held-to-maturity                                                  | 118                          | 135                 |
| Maturities of securities held-to-maturity                                                | 108                          | 189                 |
| Purchases of securities available-for-sale                                               | (4,612)                      | (11,450)            |
| Sales of securities available for sale                                                   | 329                          | 386                 |
| Paydowns of securities available-for-sale                                                | 2,810                        | 1,767               |
| Maturities of securities available-for-sale                                              | 2,944                        | 2,748               |
| Net principal disbursed on loans to customers                                            | (502)                        | (501)               |
| Change in federal funds sold and securities purchased under resale agreements            | (8,004)                      | (6,884)             |
| Change in seed capital investments                                                       | (93)                         | (11)                |
| Purchases of premises and equipment/capitalized software                                 | (135)                        | (118)               |
| Acquisitions, net cash                                                                   | (478)                        | (68)                |
| Dispositions, net cash                                                                   | 310                          |                     |
| Proceeds from the sale of premises and equipment                                         | 25                           | 1                   |
| Other, net                                                                               | 70                           | 174                 |
| Net cash (used for) investing activities                                                 | (10,274)                     | (23,198)            |
| <b>Financing activities</b>                                                              |                              |                     |
| Change in deposits                                                                       | 10,506                       | 18,880              |
| Change in federal funds purchased and securities sold under repurchase agreements        | 295                          | 753                 |
| Change in payables to customers and broker-dealers                                       | 2,018                        | 634                 |
| Change in other borrowed funds                                                           | 485                          | 413                 |
| Change in commercial paper                                                               | (4,054)                      | (142)               |
| Net proceeds from the issuance of long-term debt                                         | 1,826                        | 2,147               |
| Repayments of long-term debt                                                             | (2,701)                      | (22)                |
| Proceeds from the exercise of stock options                                              | 155                          | 136                 |
| Issuance of common stock                                                                 | 20                           | 104                 |
| Tax benefit realized on share-based payment awards                                       | 12                           | 23                  |
| Treasury stock acquired                                                                  | (315)                        | (40)                |
| Cash dividends paid                                                                      | (553)                        | (336)               |
| Net cash provided by financing activities                                                | 7,694                        | 22,550              |
| Effect of exchange rate changes on cash                                                  | 84                           | 29                  |
| <b>Change in cash and due from banks</b>                                                 |                              |                     |
| Change in cash and due from banks                                                        | (645)                        | 425                 |
| Cash and due from banks at beginning of period                                           | 6,635                        | 2,840               |

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|                                          |          |          |
|------------------------------------------|----------|----------|
| Cash and due from banks at end of period | \$ 5,990 | \$ 3,265 |
| <b>Supplemental disclosures</b>          |          |          |
| Interest paid                            | \$ 1,609 | \$ 1,312 |
| Income taxes paid                        | 1,102    | 763      |
| Income taxes refunded                    | 29       | 1        |

(a) Legacy The Bank of New York only.

See accompanying Notes to Consolidated Financial Statements.

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**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

Six months ended June 30, 2008

| <i>(in millions, except per share amounts)</i>                                                             | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss),<br>net of tax | Treasury<br>stock | Total<br>shareholders<br>equity |
|------------------------------------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------------------------------|-------------------|---------------------------------|
| Balance at Jan. 1, 2008                                                                                    | \$ 11           | \$ 19,990                        | \$ 10,015            | \$ (574)                                                              | \$ (39)           | \$ 29,403                       |
| Adjustments for the cumulative effect of applying EITF<br>06-04, 06-10 and SFAS 159, net of taxes of \$ 24 | -               | -                                | (57)                 | -                                                                     | -                 | (57)                            |
| Adjusted balance at Jan. 1, 2008                                                                           | 11              | 19,990                           | 9,958                | (574)                                                                 | (39)              | 29,346                          |
| Comprehensive income:                                                                                      |                 |                                  |                      |                                                                       |                   |                                 |
| Net income                                                                                                 | -               | -                                | 1,055                | -                                                                     | -                 | 1,055                           |
| Other comprehensive income:                                                                                |                 |                                  |                      |                                                                       |                   |                                 |
| Employee benefit plans:                                                                                    |                 |                                  |                      |                                                                       |                   |                                 |
| Pensions                                                                                                   | -               | -                                | -                    | 30                                                                    | -                 | 30                              |
| Other post-retirement benefits                                                                             | -               | -                                | -                    | 9                                                                     | -                 | 9                               |
| Net unrealized derivative gain on cash flow hedges                                                         | -               | -                                | -                    | 29                                                                    | -                 | 29                              |
| Foreign currency translation adjustment                                                                    | -               | -                                | -                    | 63                                                                    | -                 | 63                              |
| Change in fair value of securities available-for-sale                                                      | -               | -                                | -                    | (1,473)                                                               | -                 | (1,473)                         |
| Reclassification adjustment                                                                                | -               | -                                | -                    | (3)                                                                   | -                 | (3)                             |
| Total comprehensive income                                                                                 | -               | -                                | 1,055                | (1,345)                                                               | -                 | (290)                           |
| Dividends on common stock at \$0.48 per share                                                              | -               | -                                | (553)                | -                                                                     | -                 | (553)                           |
| Repurchase of common stock                                                                                 | -               | -                                | -                    | -                                                                     | (315)             | (315)                           |
| Common stock issued under employee benefit plans                                                           | -               | 13                               | -                    | -                                                                     | 22                | 35                              |
| Common stock issued under direct stock purchase and<br>dividend reimbursement plan                         | -               | -                                | -                    | -                                                                     | 15                | 15                              |
| Stock awards and options exercised                                                                         | -               | 123                              | -                    | -                                                                     | 205               | 328                             |
| Other                                                                                                      | -               | -                                | 3                    | -                                                                     | -                 | 3                               |
| <b>Balance at June 30, 2008</b>                                                                            | <b>\$ 11</b>    | <b>\$20,126</b>                  | <b>\$10,463</b>      | <b>\$(1,919)</b>                                                      | <b>\$(112)</b>    | <b>\$28,569</b>                 |

Note: Comprehensive income for the six months ended June 30, 2008 and 2007 was \$(290) million and \$788 million. Comprehensive income for the first six months of 2007 is for legacy The Bank of New York only.

See accompanying Notes to Consolidated Financial Statements



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### **Notes to Consolidated Financial Statements**

#### **Note 1 Basis of presentation**

The accounting and financial reporting policies of The Bank of New York Mellon Corporation, a global financial services company, conform to U.S. generally accepted accounting principles (GAAP) and prevailing industry practices. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements. Amounts subject to significant estimates and assumptions are items such as the reserve for loan losses and lending-related commitments, goodwill and intangibles, pension and post-retirement obligations, and the fair value of financial instruments. Actual results could differ from these estimates.

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. Certain other reclassifications have been made to prior periods to place them on a basis comparable with current period presentation.

#### **Note 2 Acquisitions and dispositions**

We frequently structure our acquisitions with both an initial payment and later contingent payments tied to post-closing revenue or income growth. We record the fair value of contingent payments as an additional cost of the entity acquired in the period that the payment becomes probable.

At June 30, 2008, we are potentially obligated to pay additional consideration which, using reasonable assumptions for the performance of the acquired companies and joint ventures, could range from approximately \$250 million to \$490 million over the next 9 years. None of the potential contingent additional consideration was recorded as goodwill at June 30, 2008. There was no cash paid or accrued for contingent payments in the second quarter. Contingent payments totaled \$124 million in the first half of 2008.

##### *Acquisitions in 2008*

In January 2008, we acquired ARX Capital Management. Goodwill related to this acquisition is tax-deductible and was \$127 million. The pre-tax estimate of intangible assets (customer contracts) related to this transaction with an estimated life of 7 years totaled \$58 million. ARX Capital Management is a leading independent asset management business, headquartered in Rio de Janeiro, Brazil. ARX Capital Management specializes in Brazilian multi-strategy, long/short and long only investment strategies and has more than \$2.8 billion in assets under management. This transaction enables us to offer clients access to expanding investment opportunities and expertise in the Brazilian marketplace. The impact of this acquisition on earnings per share is not expected to be material.

##### *Dispositions in 2008*

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.

In June 2008, we sold 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.

On March 31, 2008, we sold a portion of the Estabrook Capital Management business which reduced our assets under management by \$2.4 billion. We retained approximately 30% of the assets under management which primarily will be managed by the Wealth Management segment.



**Table of Contents****Notes to Consolidated Financial Statements** (continued)

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

*Acquisitions and dispositions in 2007**Merger with Mellon Financial Corporation*

See Note 4 Acquisitions and dispositions to Notes to Consolidated Financial Statements in the Company's 2007 Annual Report on Form 10-K for a discussion of The Bank of New York's merger with Mellon Financial Corporation (Mellon Financial) on July 1, 2007, including purchase price allocation and goodwill, the fair value of acquired, identifiable intangible assets and a condensed statement of net assets acquired. The Bank of New York and Mellon Financial both merged into a new holding company named The Bank of New York Mellon Corporation, (the Company), upon completion of the transaction. In the transaction, each share of Mellon Financial \$0.50 par value common stock was converted into one share of the Company's \$0.01 par value common stock and each share of The Bank of New York \$7.50 par value common stock was converted into 0.9434 shares of the Company's \$0.01 par value common stock. The merger was accounted for as a purchase of Mellon Financial for accounting and financial reporting purposes. As a result, the historical financial statements of the combined company, presented in this Form 10-Q for periods prior to July 1, 2007, are the historical financial statements of The Bank of New York. Mellon Financial's results of operations were included with The Bank of New York's results beginning July 1, 2007.

*Other 2007 acquisitions and dispositions*

In December 2007, we completed the acquisition of the remaining 50% interest in ABN AMRO Mellon Global Securities Services B.V. (ABN AMRO Mellon). ABN AMRO Mellon, a 50-50 joint venture company established by Mellon Bank, N.A. and ABN AMRO in 2003 to provide global custody and related services to institutions outside North America, is now known as BNY Mellon Asset Servicing, B.V. and is included in the Asset Servicing segment. 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 2007. The impact of the acquisition on earnings per share is not expected to be material.

In January 2007, certain clearing and custody relationships rights were acquired by our Pershing subsidiary. The transaction involved 46 organizations, comprised of 30 registered investment advisor firms and 16 introducing broker-dealer firms.

In March 2007, we sold our 49% stake in joint venture BNY Mortgage Co. to EverBank Financial Corp. The transaction is consistent with our strategy to focus on asset management and securities servicing.

In June 2007, we sold our 30% equity investment in RBS International Securities Services (Holdings) Limited to BNP Paribas Securities Services.

*Pro forma condensed combined financial information*

On a pro forma basis, if the merger with Mellon Financial had occurred on Jan. 1, 2007, the transaction would have had the following impact:

(dollar amounts in millions,

Quarter ended June 30, 2007

Six months ended June 30, 2007

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| <i>except per share amounts)</i>  | Reported | Pro Forma | Reported | Pro Forma |
|-----------------------------------|----------|-----------|----------|-----------|
| Revenue                           | \$ 2,032 | \$ 3,522  | \$ 3,934 | \$ 6,820  |
| Income from continuing operations | 448      | 807       | 885      | 1,451     |
| Net income                        | 445      | 798       | 879      | 1,448     |
| Diluted earnings per share:       |          |           |          |           |
| Income from continuing operations | \$ 0.62  | \$ 0.71   | \$ 1.23  | \$ 1.27   |
| Net income                        | 0.62     | 0.70      | 1.22     | 1.27      |

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)

The pro forma results are based on adding the pre-tax historical results of Mellon Financial to our results and adjusting primarily for M&I expenses and amortization of intangibles created in the transaction and taxes. The pro forma data is intended for informational purposes and is not indicative of the future results of operations.

**Note 3 Accounting changes and new accounting pronouncements***SFAS No. 157 - Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157 ( SFAS 157 ), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and requires additional disclosures about fair value measurements. Under this framework, a three-level hierarchy has been established based on the transparency of the inputs to the valuation of an asset or liability. SFAS 157 clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability, in an orderly transaction between market participants. SFAS 157 nullifies the consensus reached in EITF Issue No. 02-3 prohibiting the recognition of day one gain or loss on derivative contracts (and hybrid instruments measured at fair value under SFAS 133 as modified by SFAS 155) where we cannot verify all of the significant model inputs to observable market data and verify the model to market transactions. However, SFAS 157 requires that a fair value measurement technique include an adjustment for risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model if market participants would also include such an adjustment. SFAS 157 requires us to consider the effect of our own credit standing in determining the fair value of our liabilities. In addition, SFAS 157 prohibits the recognition of block discounts for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available in an active market. The requirements of SFAS 157 are applied prospectively, except for changes in fair value measurements that resulted from the initial application of SFAS 157 to existing derivative financial instruments measured under EITF Issue No. 02-3, existing hybrid instruments measured at fair value, and block discounts, which are to be

recorded as an adjustment to opening retained earnings in the year of adoption.

We adopted SFAS 157 as of Jan. 1, 2008. As a result of maximizing observable inputs as required by SFAS 157, we began to reflect external credit ratings as well as observable credit default swap spreads when measuring the fair value of our derivative positions. The cumulative effect of making this derivative valuation adjustment was immaterial to earnings in the second quarter and first half of 2008. The adoption of SFAS 157 did not have a material impact on our financial condition or results of operations and less than 5% of our assets and liabilities measured at fair value are in the lowest tier of the fair value hierarchy. See Note 12, Fair Value Measurement in Notes to Consolidated Financial Statements.

*SFAS No. 159 - Fair Value Option*

In February 2007, the FASB issued SFAS No. 159 ( SFAS 159 ), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 provides companies with an irrevocable option to elect fair value as the measurement basis for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments which are not subject to fair value under other accounting standards. There was a one-time election available to apply this standard to existing financial instruments as of Jan. 1, 2008; otherwise, the fair value option will be available for financial instruments on their initial transaction date. The first re-measurement of existing financial instruments for which the option was elected was recorded as an adjustment to retained earnings; changes in the fair value subsequent to initial adoption will be recorded in earnings.

We adopted SFAS 159 along with SFAS 157 on Jan. 1, 2008. We elected the fair value option for \$390 million of existing loans and unfunded loan commitments where the related credit risks are primarily managed utilizing other financial instruments which are fair valued in earnings. This election better aligns the accounting and reflects our risk management practices. As a result of adopting the fair value option on these loans and commitments, we recorded a charge to retained earnings as of Jan. 1, 2008, of \$36 million, after tax.



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**Notes to Consolidated Financial Statements** (continued)

On July 1, 2008, \$280 million of the outstanding loans were repaid.

*EITF 06-4 and EITF 06-10 Split-Dollar Life Insurance*

In September 2006, the FASB ratified Emerging Issues Task Force (EITF) 06-4, Postretirement Benefits Associated with Split-Dollar Life Insurance Arrangements, and in March 2007, FASB ratified EITF 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements. EITF 06-4 and EITF 06-10 address endorsement and collateral assignment split-dollar life insurance arrangements, respectively, that provide a benefit to an employee that extends to postretirement periods. An endorsement split-dollar policy is owned and controlled by the employer. However, a collateral assignment policy is owned and controlled by the employee. Both policy arrangements provide that the employer and an employee split the insurance policy's cash surrender value and/or death benefits.

The EITFs require that the deferred compensation or postretirement benefit aspects of the split-dollar life insurance arrangements be recognized as a liability by the employer because the obligation is not effectively settled by the purchase of a life insurance policy. The liability for future benefits will be recognized based on the substantive agreement with the employee, which may be either to provide a future death benefit or to pay for the future cost of the life insurance.

Both EITFs were effective Jan. 1, 2008. The adoption of these EITFs required us to record a net liability, in accordance with SFAS 106, of \$21 million with an offsetting debit to retained earnings of \$21 million.

*FSP No. FIN 39-1 Amendment of FASB Interpretation No. 39*

In April 2007, the FASB issued FASB Staff Position No. FIN 39-1 ( FSP 39-1 ) Amendment of FASB Interpretation No. 39. FSP 39-1 permits offsetting of fair value amounts recognized for the right to reclaim cash collateral (a receivable) or obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangements, and amends FIN No. 39 to replace the terms conditional contracts and

exchange contracts with the term derivative instruments, as defined in SFAS 133. We adopted this FSP on Jan. 1, 2008. Beginning Jan. 1, 2008, we revised our accounting policy to net cash collateral received and cash collateral paid for derivative instruments executed with the same counterparty under the same master netting arrangements. The impact of adopting FSP 39-1 resulted in a reduction of trading account assets and trading account liabilities of \$356 million and \$540 million, respectively, at June 30, 2008.

*Other*

Certain other prior year information has been reclassified to conform its presentation with the 2008 financial statements.

**Note 4 Discontinued operations**

On Oct. 1, 2006, we acquired JPMorgan Chase's corporate trust business and JPMorgan Chase acquired our Retail Business. We adopted discontinued operations accounting for our Retail Business. The results from continuing operations exclude the results of our Retail Business and include the operations of the Acquired Corporate Trust Business after Oct. 1, 2006.

In accordance with GAAP, the results for the Retail Business are reported separately as discontinued operations for all periods presented. The assets and liabilities of the Retail Business are included in other assets on the consolidated balance sheet. In addition, certain residual activity from businesses that Mellon Financial had reported as discontinued operations prior to the merger are also included as discontinued operations after July 1, 2007.

Assets and liabilities of discontinued operations for all periods presented were not significant.

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Summarized financial information for discontinued operations is as follows:

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Discontinued operations**

| <i>(in millions)</i>                                     | Quarter ended    |                   |                                 | Six months ended |                                 |
|----------------------------------------------------------|------------------|-------------------|---------------------------------|------------------|---------------------------------|
|                                                          | June 30,<br>2008 | March 31,<br>2008 | June 30,<br>2007 <sup>(a)</sup> | June 30,<br>2008 | June 30,<br>2007 <sup>(a)</sup> |
| Fee and other revenue                                    | \$ 18            | \$ (2)            | \$ 1                            | \$ 16            | \$ 15                           |
| Net interest revenue                                     | -                | -                 | -                               | -                | -                               |
| Total revenue                                            | \$ 18            | \$ (2)            | \$ 1                            | \$ 16            | \$ 15                           |
| Income (loss) from discontinued operations               | \$ 16            | \$ (5)            | \$ (4)                          | \$ 11            | \$ (9)                          |
| Income taxes (benefits)                                  | 9                | (2)               | (1)                             | 7                | (3)                             |
| Income (loss) from discontinued operations, net of taxes | \$ 7             | \$ (3)            | \$ (3)                          | \$ 4             | \$ (6)                          |

*(a) Legacy The Bank of New York only.*

**Note 5 Goodwill and intangible assets***Goodwill*

The table below provides a breakdown of goodwill by business segment. Goodwill impairment testing is performed annually at the business segment level. No impairment losses were recorded in the first half of 2008.

**Goodwill by segment**

| <i>(in millions)</i>            | Asset<br>Management | Wealth<br>Management | Asset<br>Servicing | Issuer<br>Services | Clearing<br>Services | Treasury<br>Services | Other        | Total            |
|---------------------------------|---------------------|----------------------|--------------------|--------------------|----------------------|----------------------|--------------|------------------|
| Balance at Dec. 31, 2007        | \$ 7,054            | \$ 2,362             | \$ 3,291           | \$ 2,413           | \$ 1,119             | \$ 92                | \$ -         | \$ 16,331        |
| Acquisitions/dispositions       | 134                 | -                    | (11)               | 46                 | (50)                 | -                    | (178)        | (59)             |
| Transfer between segments       | -                   | (255)                | -                  | -                  | -                    | -                    | 255          | -                |
| Foreign exchange translation    | 6                   | -                    | 1                  | -                  | -                    | -                    | -            | 7                |
| Other <sup>(a)</sup>            | 399                 | (417)                | 237                | 21                 | -                    | 25                   | 21           | 286              |
| <b>Balance at June 30, 2008</b> | <b>\$ 7,593</b>     | <b>\$ 1,690</b>      | <b>\$ 3,518</b>    | <b>\$ 2,480</b>    | <b>\$ 1,069</b>      | <b>\$ 117</b>        | <b>\$ 98</b> | <b>\$ 16,565</b> |

*(a) Other changes in goodwill include purchase price adjustments and certain other reclassifications.*

*Intangible assets*

Intangible assets not subject to amortization are tested annually for impairment or more often if events or circumstances indicate they may be impaired. The decrease in intangible assets at June 30, 2008 compared with Dec. 31, 2007 resulted from amortization and the sale of M1BB, partially offset by the acquisition of ARX Capital Management. No impairment losses were recorded on intangible assets in the first half of 2008.

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

| Intangible assets                                  | June 30, 2008         |                          |                     | Dec. 31, 2007       |
|----------------------------------------------------|-----------------------|--------------------------|---------------------|---------------------|
|                                                    | Gross carrying amount | Accumulated amortization | Net carrying amount | Net carrying amount |
| <i>(in millions)</i>                               |                       |                          |                     |                     |
| Subject to amortization:                           |                       |                          |                     |                     |
| Customer relationships-Asset and Wealth Management | \$ 2,028              | \$ (324)                 | \$ 1,704            | \$ 1,758            |
| Customer contracts-Institutional services          | 2,065                 | (339)                    | 1,726               | 1,776               |
| Deposit premiums                                   | 68                    | (29)                     | 39                  | 82                  |
| Other                                              | 97                    | (18)                     | 79                  | 62                  |
| Total subject to amortization                      | \$ 4,258              | \$ (710)                 | \$ 3,548            | \$ 3,678            |
| Not subject to amortization <sup>(a)</sup> :       |                       |                          |                     |                     |
| Trade name                                         | \$ 1,370              | \$ N/A                   | \$ 1,370            | \$ 1,369            |
| Mutual fund advisory contracts                     | 1,355                 | N/A                      | 1,355               | 1,355               |
| Total not subject to amortization                  | \$ 2,725              | \$ N/A                   | \$ 2,725            | \$ 2,724            |
| Total intangible assets                            | \$ 6,983              | \$ (710)                 | \$ 6,273            | \$ 6,402            |

(a) Intangible assets not subject to amortization have an indefinite life.

N/A Not applicable

**Intangible assets-net carrying amount by segment**

| <i>(in millions)</i>                        | Asset Management         | Wealth Management | Asset Servicing | Issuer Services | Clearing Services | Treasury Services | Other         | Total           |
|---------------------------------------------|--------------------------|-------------------|-----------------|-----------------|-------------------|-------------------|---------------|-----------------|
|                                             | Balance at Dec. 31, 2007 | \$ 3,364          | \$ 643          | \$ 505          | \$ 919            | \$ 710            | \$ 261        | \$              |
| Acquisitions/dispositions                   | 64                       |                   | (2)             | 17              | 10                |                   | (22)          | 67              |
| Transfer between segments                   |                          | (37)              |                 |                 |                   |                   | 37            |                 |
| Amortization                                | (130)                    | (33)              | (12)            | (40)            | (12)              | (14)              | (5)           | (246)           |
| Other <sup>(a)</sup>                        | (404)                    | (206)             | (181)           | (19)            | 13                | (5)               | 852           | 50              |
| <b>Net carrying amount at June 30, 2008</b> | <b>\$ 2,894</b>          | <b>\$ 367</b>     | <b>\$ 310</b>   | <b>\$ 877</b>   | <b>\$ 721</b>     | <b>\$ 242</b>     | <b>\$ 862</b> | <b>\$ 6,273</b> |

(a) Other changes in intangible assets primarily reflect reclassifications.

Intangible amortization expense was \$124 million and \$29 million for the quarters ended June 30, 2008 and 2007, respectively, and \$246 million and \$57 million for the first six months of 2008 and 2007, respectively. Estimated annual amortization expense for current intangibles for the next five years is as follows:

| For the year ended Dec. 31 | Estimated amortization expense <i>(in millions)</i> |
|----------------------------|-----------------------------------------------------|
| 2008                       | \$ 486                                              |
| 2009                       | 431                                                 |
| 2010                       | 389                                                 |
| 2011                       | 355                                                 |
| 2012                       | 328                                                 |

**Note 6 Allowance for credit losses**

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The allowance for credit losses is maintained at a level that, in management's judgment, is adequate to absorb probable losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the credit portfolio at the balance sheet date. Management's judgment includes the following factors, among others: risks of individual credits; past experience;

the volume, composition, and growth of the credit portfolio; and economic conditions.

We conduct a quarterly portfolio review to determine the adequacy of our allowance for credit losses. All commercial loans over \$1 million are assigned to specific risk categories. Smaller commercial and consumer exposures are evaluated on a pooled basis and assigned to specific risk categories. Following this review, senior management analyzes the results and determines the allowance for credit losses. The Risk Committee of our Board of Directors reviews the allowance at the end of each quarter.

The portion of the allowance for credit losses allocated to impaired loans (nonaccrual commercial loans over \$1 million) is measured by the difference between their recorded value and fair value. Fair value is determined by one of the following: present value of the expected future cash flows from the borrower, the market value of the loan, or the fair value of the collateral. See [Critical Accounting Estimates](#) and [Allowance](#) in the MD&A section for additional information.

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)

Commercial loans are placed on nonaccrual status when the fair value of collateral is less than the principal and principal or interest is past due 90 days or more, or when there is reasonable doubt that interest or principal will be collected. Residential mortgage loans are generally placed in nonaccrual status, when, in our judgment, collection is in doubt or the loans are 90 days or more delinquent, subject to an impairment test. Consumer loans are not classified as nonperforming assets, but are charged off based upon an established delinquency schedule determined by product. Real estate acquired in satisfaction of loans is carried in other assets at the lower of the recorded investment in the property or fair value minus estimated costs to sell. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against current period interest revenue. Interest payments received on nonaccrual loans may be recognized as income or applied to principal depending upon management's judgment. Nonaccrual loans generally are restored to accrual status when principal and interest are current or they become fully collateralized.

Transactions in the allowance for credit losses are summarized as follows:

**For the quarter ended****June 30, 2008**

| <i>(in millions)</i>            | Allowance<br>for loan<br>losses | Allowance<br>for lending-<br>related<br>commitments | Allowance<br>for credit<br>losses |
|---------------------------------|---------------------------------|-----------------------------------------------------|-----------------------------------|
| Balance at March 31, 2008       | \$ 314                          | \$ 173                                              | \$ 487                            |
| Charge-offs:                    |                                 |                                                     |                                   |
| Commercial                      | (4)                             | -                                                   | (4)                               |
| Commercial real estate          | (9)                             | -                                                   | (9)                               |
| Foreign                         | -                               | -                                                   | -                                 |
| Other                           | (2)                             | -                                                   | (2)                               |
| Total charge-offs               | (15)                            | -                                                   | (15)                              |
| Recoveries-Commercial           | 2                               | -                                                   | 2                                 |
| Net charge-offs                 | (13)                            | -                                                   | (13)                              |
| Sale of M1BB                    | (11)                            | (2)                                                 | (13)                              |
| Provision                       | 63                              | (38)                                                | 25                                |
| <b>Balance at June 30, 2008</b> | <b>\$ 353</b>                   | <b>\$ 133</b>                                       | <b>\$ 486</b>                     |

**For the six months ended****June 30, 2008**

| <i>(in millions)</i>         | Allowance<br>for loan<br>losses | Allowance<br>for lending-<br>related<br>commitments | Allowance<br>for credit<br>losses |
|------------------------------|---------------------------------|-----------------------------------------------------|-----------------------------------|
| Balance, at Dec. 31, 2007    | \$327                           | \$167                                               | \$494                             |
| Charge-offs:                 |                                 |                                                     |                                   |
| Commercial                   | (11)                            | -                                                   | (11)                              |
| Commercial real estate       | (9)                             | -                                                   | (9)                               |
| Foreign                      | (5)                             | -                                                   | (5)                               |
| Other                        | (4)                             | -                                                   | (4)                               |
| Total charge-offs            | (29)                            | -                                                   | (29)                              |
| Recoveries-Commercial        | 3                               | -                                                   | 3                                 |
| Net (charge-offs) recoveries | (26)                            | -                                                   | (26)                              |
| Sale of M1BB                 | (11)                            | (2)                                                 | (13)                              |

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|                                 |               |               |               |
|---------------------------------|---------------|---------------|---------------|
| SFAS 159 adoption               | (10)          | -             | (10)          |
| Provision                       | 73            | (32)          | 41            |
| <b>Balance at June 30, 2008</b> | <b>\$ 353</b> | <b>\$ 133</b> | <b>\$ 486</b> |

**For the quarter ended**

**June 30, 2007 <sup>(a)</sup>**

| <i>(in millions)</i>            | Allowance<br>for loan<br>losses | Allowance<br>for lending-<br>related<br>commitments | Allowance<br>for credit<br>losses |
|---------------------------------|---------------------------------|-----------------------------------------------------|-----------------------------------|
| Balance, at March 31, 2007      | \$290                           | \$135                                               | \$425                             |
| Charge-offs                     | -                               | -                                                   | -                                 |
| Recoveries                      | 5                               | -                                                   | 5                                 |
| Net (charge-offs) recoveries    | 5                               | -                                                   | 5                                 |
| Provision                       | (13)                            | (2)                                                 | (15)                              |
| <b>Balance at June 30, 2007</b> | <b>\$ 282</b>                   | <b>\$ 133</b>                                       | <b>\$ 415</b>                     |

**For the six months ended**

**June 30, 2007 <sup>(a)</sup>**

| <i>(in millions)</i>            | Allowance<br>for loan<br>losses | Allowance<br>for lending-<br>related<br>commitments | Allowance<br>for credit<br>losses |
|---------------------------------|---------------------------------|-----------------------------------------------------|-----------------------------------|
| Balance at Dec. 31, 2006        | \$287                           | \$150                                               | \$437                             |
| Charge-offs                     | -                               | (5)                                                 | (5)                               |
| Recoveries                      | 13                              | -                                                   | 13                                |
| Net (charge-offs) recoveries    | 13                              | (5)                                                 | 8                                 |
| Provision                       | (18)                            | (12)                                                | (30)                              |
| <b>Balance at June 30, 2007</b> | <b>\$ 282</b>                   | <b>\$ 133</b>                                       | <b>\$ 415</b>                     |

*(a) Legacy The Bank of New York only.*

**Note 7 Other assets**

**Other assets**

| <i>(in millions)</i>                                          | <b>June 30,<br/>2008</b> | Dec. 31,<br>2007 |
|---------------------------------------------------------------|--------------------------|------------------|
| Accounts receivable                                           | <b>\$ 4,247</b>          | \$ 4,889         |
| Corporate/bank owned life insurance                           | <b>3,645</b>             | 3,599            |
| Equity in joint ventures and other investments <sup>(a)</sup> | <b>2,393</b>             | 2,400            |
| Fails to deliver                                              | <b>1,914</b>             | 1,650            |
| Prepaid pension assets                                        | <b>1,775</b>             | 1,657            |
| Software                                                      | <b>567</b>               | 519              |
| Prepaid expenses                                              | <b>426</b>               | 329              |
| Due from customers on acceptances                             | <b>193</b>               | 81               |
| Margin deposits                                               | <b>42</b>                | 511              |
| Other                                                         | <b>450</b>               | 1,041            |
| <b>Total other assets</b>                                     | <b>\$ 15,652</b>         | \$ 16,676        |

*(a) Includes Federal Reserve Bank stock of \$348 million and \$366 million, at cost.*

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 8 Net interest revenue**

| Net interest revenue<br><i>(in millions)</i>                            | Quarter ended         |                   |                                 | Six months ended        |                                 |
|-------------------------------------------------------------------------|-----------------------|-------------------|---------------------------------|-------------------------|---------------------------------|
|                                                                         | June 30,<br>2008      | March 31,<br>2008 | June 30,<br>2007 <sup>(a)</sup> | June 30,<br>2008        | June 30,<br>2007 <sup>(a)</sup> |
| <b>Interest revenue</b>                                                 |                       |                   |                                 |                         |                                 |
| Non-margin loans                                                        | \$ 21 <sup>(b)</sup>  | \$ 486            | \$ 420                          | \$ 507 <sup>(b)</sup>   | \$ 827                          |
| Margin loans                                                            | 48                    | 58                | 87                              | 106                     | 172                             |
| Securities:                                                             |                       |                   |                                 |                         |                                 |
| Taxable                                                                 | 550                   | 609               | 330                             | 1,159                   | 622                             |
| Exempt from federal income taxes                                        | 6                     | 9                 | 1                               | 15                      | 2                               |
| Total securities                                                        | 556                   | 618               | 331                             | 1,174                   | 624                             |
| Deposits in banks                                                       | 412                   | 412               | 233                             | 824                     | 378                             |
| Federal funds sold and securities purchased under resale agreements     | 37                    | 64                | 77                              | 101                     | 134                             |
| Trading assets                                                          | 18                    | 18                | 14                              | 36                      | 48                              |
| Total interest revenue                                                  | 1,092 <sup>(b)</sup>  | 1,656             | 1,162                           | 2,748 <sup>(b)</sup>    | 2,183                           |
| <b>Interest expense</b>                                                 |                       |                   |                                 |                         |                                 |
| Deposits                                                                | 477                   | 615               | 487                             | 1,092                   | 887                             |
| Federal funds purchased and securities sold under repurchase agreements | 11                    | 26                | 16                              | 37                      | 35                              |
| Other borrowed funds                                                    | 23                    | 29                | 24                              | 52                      | 36                              |
| Customer payables                                                       | 18                    | 24                | 47                              | 42                      | 89                              |
| Long-term debt                                                          | 152                   | 195               | 136                             | 347                     | 257                             |
| Total interest expense                                                  | 681                   | 889               | 710                             | 1,570                   | 1,304                           |
| Net interest revenue                                                    | \$ 411 <sup>(b)</sup> | \$ 767            | \$ 452                          | \$ 1,178 <sup>(b)</sup> | \$ 879                          |

*(a) Legacy The Bank of New York only.*

*(b) Includes the SILO charge of \$377 million recorded in the second quarter of 2008.*

**Note 9 Capital transactions**

The Company has 3.5 billion authorized shares of common stock with a par value of \$0.01 per share and 100 million authorized shares of preferred stock with a par value of \$0.01 per share. At June 30, 2008, there were 1,146,070,295 outstanding shares of common stock and no outstanding shares of preferred stock.

On July 8, 2008, our Board of Directors declared a quarterly common stock dividend of \$0.24 per share that was paid on Aug. 1, 2008, to shareholders of record as of the close of business on July 23, 2008.

On Dec. 18, 2007, the Board of Directors of the Company authorized the repurchase of up to 35 million shares of common stock. We did not repurchase any shares of our common stock in the

second quarter of 2008 under this program. In the first quarter of 2008, we repurchased 5.9 million shares, at an initial price of \$45.05 per share, through a purchase agreement with a broker-dealer counterparty which borrowed the shares as part of an accelerated share repurchase program.

The initial price is subject to a purchase price adjustment based on the price the counterparty actually pays for the shares. On July 28, 2008, we received \$19 million in cash to settle the purchase price adjustments.

At June 30, 2008, 33.8 million shares were available for repurchase under the December 2007 repurchase program.



**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 10 Employee benefit plans**

The components of net periodic benefit cost (credit) are as follows:

|                            | Quarter ended                   |                                |                            |                                 |                                |                            |                                 |                                |                            |
|----------------------------|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|
|                            | June 30, 2008                   |                                |                            | March 31, 2008                  |                                |                            | June 30, 2007 <sup>(a)</sup>    |                                |                            |
|                            | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits |
| <i>(in millions)</i>       |                                 |                                |                            |                                 |                                |                            |                                 |                                |                            |
| Service cost               | \$ 19                           | \$ 7                           | \$ 1                       | \$ 19                           | \$ 7                           | \$ 1                       | \$ 10                           | \$ 2                           | \$ -                       |
| Interest cost              | 36                              | 7                              | 4                          | 36                              | 7                              | 4                          | 12                              | 3                              | 3                          |
| Expected return on assets  | (73)                            | (10)                           | (1)                        | (73)                            | (10)                           | (1)                        | (26)                            | (4)                            | (1)                        |
| Other                      | 19                              | 1                              | 2                          | 3                               | 1                              | 2                          | 5                               | 1                              | 2                          |
| Net periodic cost (credit) | \$ 1                            | \$ 5                           | \$ 6                       | \$ (15)                         | \$ 5                           | \$ 6                       | \$ 1                            | \$ 2                           | \$ 4                       |

(a) Legacy The Bank of New York only.

|                            | Six months ended                |                                |                            |                                 |                                |                            |
|----------------------------|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|
|                            | June 30, 2008                   |                                |                            | June 30, 2007 <sup>(a)</sup>    |                                |                            |
|                            | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits |
| <i>(in millions)</i>       |                                 |                                |                            |                                 |                                |                            |
| Service cost               | \$ 38                           | \$ 14                          | \$ 2                       | \$ 20                           | \$ 4                           | \$ -                       |
| Interest cost              | 72                              | 14                             | 8                          | 24                              | 6                              | 6                          |
| Expected return on assets  | (146)                           | (20)                           | (2)                        | (52)                            | (8)                            | (2)                        |
| Other                      | 22                              | 2                              | 4                          | 10                              | 2                              | 4                          |
| Net periodic cost (credit) | \$ (14)                         | \$ 10                          | \$ 12                      | \$ 2                            | \$ 4                           | \$ 8                       |

(a) Legacy The Bank of New York only.

**Note 11 Income taxes**

The statutory federal income tax rate is reconciled to our effective income tax rate below:

| Effective tax rate                                              | Six months ended |                     |
|-----------------------------------------------------------------|------------------|---------------------|
|                                                                 | June 30,         | June 30,            |
|                                                                 | 2008             | 2007 <sup>(a)</sup> |
| Federal rate                                                    | 35.0%            | 35.0%               |
| State and local income taxes, net of federal income tax benefit | 2.2              | 2.4                 |
| Credit for synthetic fuel investments                           | 0.1              | (1.3)               |



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|                                           |       |       |
|-------------------------------------------|-------|-------|
| Credit for low-income housing investments | (1.2) | (1.2) |
| Tax-exempt income                         | (2.0) | (1.2) |
| Foreign operations                        | (5.2) | (2.0) |
| SILO adjustment                           | 8.3   |       |
| Other net                                 | 1.8   | 0.4   |
| Effective rate                            | 39.0% | 32.1% |

*(a) Legacy The Bank of New York only.*

Our total tax reserves as of June 30, 2008 were \$1.7 billion. If these tax reserves were unnecessary, \$213 million would affect the effective tax rate in future periods, \$1.5 billion would impact deferred taxes and \$40 million would affect goodwill. We recognize accrued interest and penalties, if

applicable, related to income taxes in income tax expense. Included in the balance sheet as of June 30, 2008 is accrued interest, where applicable, of \$487 million. The additional tax expense related to interest for the three and six months ended June 30, 2008 was \$229 million and \$251 million, respectively.

Our federal consolidated income tax returns are closed to examination through 1995. Although the IRS has completed its examination for 1996 and 1997, at this time, a formal revenue agent's report has not been received. We believe it is unlikely that there will be any changes to those years that would affect the tax reserves. The IRS is currently examining our consolidated income tax returns for tax years 1998 through 2002. Our New York State and New York City return examinations have been completed through 1993. New York State and New York City are currently examining our tax returns for the years 1994 through 1996. Our United Kingdom income tax returns are closed through 1998. Although the UK tax authorities have

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)

completed their examination for the period from 1999 through 2004, at this time, a formal report has not been received. We believe it is unlikely that there will be any changes to those years that would materially affect the tax reserves.

We have tax reserves related to transactions occurring in the years 1998 through 2002 that are currently under examination by the IRS. The outcome of such examination is not yet determinable. We do not expect that the resolution of these and other issues over the next 12 months will have a material impact on our financial statements.

**Note 12 Fair value measurement**

We adopted SFAS 157, ( Fair Value Measurement ), effective Jan. 1, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. It 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 and expands the disclosures about instruments measured at fair value. SFAS 157 requires consideration of a company's own creditworthiness when valuing liabilities. SFAS 157 also nullified the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique and eliminated large position discounts for financial instruments quoted in active markets.

We also adopted SFAS 159 effective Jan. 1, 2008. SFAS 159 provides an option to elect fair value as an alternative measurement basis for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments which are not subject to fair value under other accounting standards. As a result of adopting SFAS 159, we elected fair value accounting for certain assets and liabilities not previously carried at fair value. For more information, see Note 13 of Notes to Consolidated Financial Statements.

*Determination of fair value*

Following is a description of our valuation methodologies for assets and liabilities measured at fair value. Such valuation methodologies were applied to all of the assets and liabilities carried at fair value, whether as a result of the adoption of SFAS 159 or previously carried at fair value. We have established processes for determining fair values. Fair value is based upon quoted market prices, where available. 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, observability of model parameters and the results of stress tests. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

Most derivative contracts are valued using internally developed models which are calibrated to observable market data and employ standard market pricing theory for their valuations. An initial risk-neutral valuation is performed on each position assuming time-discounting based on an AA credit curve. Then, to arrive at a fair value that incorporates counterparty credit risk, a credit adjustment is made to these results by discounting each trade's expected exposures to the counterparty using the counterparty's credit spreads, as implied by the credit default swap market. We also adjust expected liabilities to the counterparty using the Bank's own credit spreads, also implied by the credit default swap market. We began incorporating the credit risk adjustments on Jan. 1, 2008. In certain cases, we may face additional costs to exit large risk positions or recent prices may not be observable for instruments that trade in inactive or less active markets. The costs to exit large risk positions are based on evaluating the negative change in the market during the time it would take for us to bring those positions to normal market



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levels for those instruments. Upon evaluating the uncertainty in valuing financial instruments subject to liquidity issues, we make an adjustment to their value. The determination of the liquidity adjustment includes the availability of external quotes, the time since the latest available quote and the price volatility of the instrument.

Certain parameters in some financial models are not directly observable and, therefore, are based on managements' estimates and judgments. These financial instruments are normally traded less actively. Examples include certain credit products where parameters such as correlation and recovery rates are unobservable. We apply valuation adjustments to mitigate the possibility of error and revision in the model based estimate value.

The methods described above may produce a current fair value calculation that may not be indicative of net realizable value or reflective of future fair values. We believe our methods of determining fair value are appropriate and consistent with other market participants. However, the use of different methodologies or different assumptions to value certain financial instruments could result in a different estimate of fair value.

*Valuation hierarchy*

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are described below.

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 assets and liabilities include debt and equity securities and derivative financial instruments actively traded on exchanges and U.S. Treasury securities and U.S. Government and agency mortgage-backed securities that are actively traded in highly liquid over the counter markets.

Level 2: Observable inputs other than Level 1 prices, for example, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets

that are not active, and inputs that are observable or can be corroborated, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 assets and liabilities include debt instruments that are traded less frequently than exchange traded securities and derivative instruments whose model inputs are observable in the market or can be corroborated by market observable data. Examples in this category are certain variable and fixed rate non-agency mortgage-backed securities, corporate debt securities and derivative contracts.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Examples in this category include interests in certain securitized financial assets, certain private equity investments, and derivative contracts that are highly structured or long-dated.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Loans and unfunded lending-related commitments*

Where quoted market prices are not available, we generally base the fair value of loans and unfunded lending-related commitments on observable market prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If observable market prices are not available, we base the fair value on estimated cash flows adjusted for credit risk which are discounted using an interest rate appropriate for the maturity of the applicable loans or the unfunded commitments.

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Loans carried at fair value include loans for which the fair value option was elected (see Note 13) and are included in Loans and also include loans in trading assets on the balance sheet. Unrealized gains and losses on unfunded lending commitments carried at fair value are classified in Other assets and Other liabilities, respectively. Loans and unfunded lending commitments carried at fair value

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)

are generally classified within level 2 of the valuation hierarchy.

*Securities*

Where quoted prices are available in an active market, we classify the securities within level 1 of the valuation hierarchy. Securities are defined as both long and short positions. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, we estimate fair values using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, include certain non-agency mortgage-backed securities, commercial mortgage-backed securities and European floating rate notes. In certain cases where there is limited activity or less transparency around inputs to the valuation, we classify those securities in level 3 of the valuation hierarchy. Securities classified within level 3 include certain residual interests in securitizations and other less liquid securities.

*Derivatives*

We classify exchange-traded derivatives valued using quoted prices in level 1 of the valuation hierarchy. Examples include exchanged-traded equity and foreign exchange options. Since few other classes of derivative contracts are listed on an exchange, most of our derivative positions are valued using internally developed models that use as their basis readily observable market parameters and we classify them in level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps and options and credit default swaps. Derivatives valued using models with significant unobservable market parameters and that are traded less actively or in markets that lack two way flow, are classified in level 3 of the valuation hierarchy. Examples include long-dated interest rate or currency swaps, where swap rates may be unobservable for longer maturities; and certain credit products, where correlation and recovery rates are unobservable.

*Seed capital*

In our Asset Management segment we manage investment assets, including equities, fixed income, money market and alternative investment funds for institutions and other investors; as part of that activity we make seed capital investments in certain funds. Seed capital is included in trading assets, securities available-for-sale and other assets, depending on the nature of the investment. When applicable, we value seed capital based on the published net asset value ( NAV ) of the fund. We include funds in which ownership interests in the fund are publicly-traded in an active market and institutional funds in which investors trade in and out daily in level 1 of the valuation hierarchy. We include open-end funds where investors are allowed to sell their ownership interest back to the fund less frequent than daily and where our interest in the fund contains no other rights or obligations in level 2 of the valuation hierarchy. However, we generally include investments in funds which allow investors to sell their ownership interest back to the fund less frequently than monthly in level 3, unless actual redemption prices are observable.

For other types of investments in funds, we consider all of the rights and obligations inherent in our ownership interest, including the reported NAV as well as other factors that affect the fair value of our interest in the fund. To the extent the NAV measurements reported for the investments are based on unobservable inputs or include other rights and obligations (e.g., obligation to meet cash calls), we generally classify them in level 3 of the valuation hierarchy.

*Certain interests in securitizations*

For certain interests in securitizations which are classified in securities available-for-sale and other assets, we use discounted cash flow models which generally include assumptions of projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and estimates of payments to third-party investors. When available, we compare our fair value estimates and assumptions to market activity and to the actual results of the securitized portfolio. Changes in these assumptions may significantly impact our estimate of fair value of the interests in



**Table of Contents****Notes to Consolidated Financial Statements** (continued)

securitizations; accordingly, we generally classify them in level 3 of the valuation hierarchy.

*Private equity investments*

Our Other segment includes holdings of nonpublic private equity investment through funds managed by third party investment managers and, to a lesser extent, direct investment in private equities. Nonpublic private equity investments generally lack quoted market prices, are less liquid and may be long term, accordingly we must apply significant judgment in determining their fair value. We value private equity investments initially based upon the transaction price which we subsequently adjust to reflect expected exit values as evidenced by financing and sale transactions with third parties or through ongoing reviews by the investment managers. The investment managers consider a number of factors in changes in valuation including current operating performance and future expectations of the particular investment, industry valuations of comparable public companies, changes in market outlook and the financing environment. Nonpublic private equity investments are included in level 3 of the valuation hierarchy.

Private equity investments also include publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. Publicly held investments are marked-to-market at the quoted public value less adjustments for regulatory or contractual sales restrictions. Discounts for restrictions are quantified by analyzing the length of the restriction period and the volatility of the equity security. Publicly held investments are primarily classified in level 2 of the valuation hierarchy.

The following table presents the financial instruments carried at fair value as of June 30, 2008, by caption on the consolidated balance sheet and by SFAS 157 valuation hierarchy (as described above).

**Assets and liabilities measured****at fair value on a recurring basis at****June 30, 2008**

| <i>(dollar amounts in millions)</i>          | Level 1         | Level 2          | Level 3         | Netting <sup>(e)</sup> | Total carrying value |
|----------------------------------------------|-----------------|------------------|-----------------|------------------------|----------------------|
| Available-for-sale securities <sup>(a)</sup> | \$ 683          | \$ 40,924        | \$ 784          | \$ -                   | \$ 42,391            |
| Trading assets:                              |                 |                  |                 |                        |                      |
| Debt and equity instruments <sup>(b)</sup>   | 799             | 920              | 18              | -                      | 1,737                |
| Derivative assets                            | 4,064           | 8,153            | 200             | (8,162)                | 4,255                |
| Loans                                        | -               | 276              | -               | -                      | 276                  |
| Other assets <sup>(c)</sup>                  | 25              | 404              | 262             | (22)                   | 669                  |
| <b>Total assets at fair value</b>            | <b>\$ 5,571</b> | <b>\$ 50,677</b> | <b>\$ 1,264</b> | <b>\$ (8,184)</b>      | <b>\$ 49,328</b>     |
| Percent of assets prior to netting           | 9.7%            | 88.1%            | 2.2%            |                        |                      |
| Trading liabilities:                         |                 |                  |                 |                        |                      |
| Debt and equity instruments                  | \$ 238          | \$ 543           | \$ -            | \$ -                   | \$ 781               |
| Derivative liabilities                       | 3,956           | 8,032            | 45              | (8,346)                | 3,687                |
| Total trading liabilities                    | 4,194           | 8,575            | 45              | (8,346)                | 4,468                |
| Other liabilities <sup>(d)</sup>             | 91              | 96               | 67              | (22)                   | 232                  |
| <b>Total liabilities at fair value</b>       | <b>\$ 4,285</b> | <b>\$ 8,671</b>  | <b>\$ 112</b>   | <b>\$ (8,368)</b>      | <b>\$ 4,700</b>      |



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|                                                                                                                                                                                                                                                                                                              |       |       |      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|------|
| Percent of liabilities prior to netting                                                                                                                                                                                                                                                                      | 32.8% | 66.3% | 0.9% |
| <i>(a) Includes seed capital and certain interests in securitizations.</i>                                                                                                                                                                                                                                   |       |       |      |
| <i>(b) Includes loans classified as trading assets.</i>                                                                                                                                                                                                                                                      |       |       |      |
| <i>(c) Includes private equity investments, seed capital and derivatives in designated hedging relationships. Includes certain financial instruments previously carried at fair value such as private equity investments whose accounting basis has not changed under a SFAS fair value option election.</i> |       |       |      |
| <i>(d) Included within other liabilities is the fair value adjustment for certain unfunded lending-related commitments and derivatives in designated hedging relationships.</i>                                                                                                                              |       |       |      |
| <i>(e) FIN 39 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral.</i>                                                                                                                      |       |       |      |

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Changes in level 3 fair value measurements**

The table below includes a rollforward of the balance sheet amounts for the three and six month periods ended June 30, 2008, (including the change in fair value), for financial instruments classified in level 3 of the valuation hierarchy.

Our classification of a financial instrument in level 3 of the valuation hierarchy is based on the significance of the unobservable factors to the overall fair value measurement. However, these instruments generally include other observable components that are actively quoted or validated to

third party sources; accordingly, the gains and losses in the table below include changes in fair value due to observable parameters as well the unobservable parameters in our valuation methodologies. We also frequently manage the risks of level 3 financial instruments using securities and derivatives positions that are level 1 or 2 instruments which are not included in the table; accordingly, the gains or losses below do not reflect the effect of our risk management activities related to the level 3 instruments.

**Fair value measurements using significant unobservable inputs  
three months ended June 30, 2008**

| (in millions)                 | Fair Value<br>March 31,<br>2008 | Total realized/unrealized<br>gains/(losses) recorded in |                         |         | Purchases,<br>issuances and<br>settlements,<br>net | Transfers<br>in/out of<br>Level 3 | Fair value<br>June 30,<br>2008 | Change in<br>unrealized gains and<br>(losses) related to<br>instruments held<br>at June 30, 2008 |
|-------------------------------|---------------------------------|---------------------------------------------------------|-------------------------|---------|----------------------------------------------------|-----------------------------------|--------------------------------|--------------------------------------------------------------------------------------------------|
|                               |                                 | Income                                                  | Comprehensive<br>income |         |                                                    |                                   |                                |                                                                                                  |
| Available-for-sale securities | \$ 854                          | \$ (60) <sup>(a)</sup>                                  | \$ 28 <sup>(a)</sup>    | \$ (12) | \$ (26)                                            | \$ 784                            | \$ (32)                        |                                                                                                  |
| Trading assets:               |                                 |                                                         |                         |         |                                                    |                                   |                                |                                                                                                  |
| Debt and equity instruments   | -                               | (10)                                                    | -                       | 2       | 26                                                 | 18                                | (12)                           |                                                                                                  |
| Derivative assets             | 177                             | 29 <sup>(b)</sup>                                       | -                       | (1)     | (5)                                                | 200                               | 29                             |                                                                                                  |
| Other assets                  | 250                             | 3 <sup>(c)</sup>                                        | -                       | 10      | (1)                                                | 262                               | 2                              |                                                                                                  |
| Total assets                  | \$1,281                         | \$ (38)                                                 | \$28                    | \$ (1)  | \$ (6)                                             | \$ 1,264                          | \$ (13)                        |                                                                                                  |
| Trading liabilities:          |                                 |                                                         |                         |         |                                                    |                                   |                                |                                                                                                  |
| Derivative liabilities        | \$ (52)                         | \$ 10 <sup>(b)</sup>                                    | \$ -                    | \$ (3)  | \$ -                                               | \$ (45)                           | \$ 3                           |                                                                                                  |
| Other liabilities             | (38)                            | (27) <sup>(c)</sup>                                     | -                       | -       | (2)                                                | (67)                              | (26)                           |                                                                                                  |
| Total liabilities             | \$ (90)                         | \$ (17)                                                 | \$ -                    | \$ (3)  | \$ (2)                                             | \$ (112)                          | \$ (23)                        |                                                                                                  |

(a) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive loss except for other than temporary impairment losses which are recorded in securities gains (losses).

(b) Reported in foreign exchange and other trading activities.

(c) Reported in foreign exchange and other trading activities, except for derivatives in designated hedging relationships which are recorded in interest revenue and interest expense.

**Fair value measurements using significant unobservable inputs**

six months ended June 30, 2008

| (in millions) | Fair Value<br>Dec. 31,<br>2007 | Total realized/unrealized<br>gains/(losses) recorded in |                         |  | Purchases,<br>issuances and<br>settlements,<br>net | Transfers<br>in/out<br>of Level 3 | Fair value<br>June 30,<br>2008 | Change in<br>unrealized gains and<br>(losses) related to<br>instruments held<br>at June 30,<br>2008 |
|---------------|--------------------------------|---------------------------------------------------------|-------------------------|--|----------------------------------------------------|-----------------------------------|--------------------------------|-----------------------------------------------------------------------------------------------------|
|               |                                | Income                                                  | Comprehensive<br>income |  |                                                    |                                   |                                |                                                                                                     |

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|                               |         |                        |                      |        |        |         |         |
|-------------------------------|---------|------------------------|----------------------|--------|--------|---------|---------|
| Available-for-sale securities | \$ 853  | \$(106) <sup>(a)</sup> | \$ 43 <sup>(a)</sup> | \$ 20  | \$(26) | \$ 784  | \$ (63) |
| Trading assets:               |         |                        |                      |        |        |         |         |
| Debt and equity instruments   | -       | (10)                   | -                    | 2      | 26     | 18      | (12)    |
| Derivative assets             | 166     | 46 <sup>(b)</sup>      | -                    | (10)   | (2)    | 200     | 55      |
| Other assets                  | 243     | 11 <sup>(c)</sup>      | -                    | 9      | (1)    | 262     | 5       |
| Total assets                  | \$1,262 | \$ (59)                | \$ 43                | \$ 21  | \$ (3) | \$1,264 | \$ (15) |
| Trading liabilities:          |         |                        |                      |        |        |         |         |
| Derivative liabilities        | \$ (34) | \$ (9) <sup>(b)</sup>  | \$ -                 | \$ (2) | \$ -   | \$ (45) | \$ (15) |
| Other liabilities             | (50)    | (15) <sup>(c)</sup>    | -                    | -      | (2)    | (67)    | (14)    |
| Total liabilities             | \$ (84) | \$(24)                 | \$ -                 | \$ (2) | \$ (2) | \$(112) | \$(29)  |

*(a) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive loss except for other than temporary impairment losses which are recorded in securities gains (losses).*

*(b) Reported in foreign exchange and other trading activities.*

*(c) Reported in foreign exchange and other trading activities, except for derivatives in designated hedging relationships which are recorded in interest revenue and interest expense.*

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Assets and liabilities measured at fair value on a nonrecurring basis**

Under certain circumstances we make adjustments to fair value our assets, liabilities and unfunded lending-related commitments although they are not measured at fair value on an ongoing basis. An example would be the recording of an impairment of an asset. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy as of June 30, 2008, for which a nonrecurring change in fair value has been recorded during the quarter ended June 30, 2008.

**Assets measured at fair value on a nonrecurring basis at June 30, 2008**

| <i>(in millions)</i>                                      | Level 1     | Level 2      | Level 3      | Total<br>carrying value |
|-----------------------------------------------------------|-------------|--------------|--------------|-------------------------|
| Loans <sup>(a)</sup>                                      | \$ -        | \$ 14        | \$ 89        | \$ 103                  |
| Other assets <sup>(b)</sup>                               | -           | 4            | -            | 4                       |
| <b>Total assets at fair value on a nonrecurring basis</b> | <b>\$ -</b> | <b>\$ 18</b> | <b>\$ 89</b> | <b>\$ 107</b>           |

*(a) During the second quarter and six months ended June 30, 2008, the fair value of these loans was reduced \$17 million and \$21 million, respectively, based on the fair value of the underlying collateral as allowed by SFAS 114, Accounting by Creditors for Impairment of a loan, with an offset to the allowance for credit losses.*

*(b) Includes assets received in satisfaction of debt. The fair value of these assets was not reduced in the second quarter of 2008 and was reduced \$1 million in the first six months of 2008, based on the fair value of the underlying collateral with an offset in foreign exchange and other trading activities.*

**Note 13 Fair value option**

SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

Effective Jan. 1, 2008, we adopted FAS 159 and elected the fair value option for \$390 million of existing loans and unfunded loan commitments where the related credit risks are partially managed utilizing credit default swaps which are fair valued in earnings and, as a result, recorded a cumulative effect decrease to retained earnings of \$36 million after-tax. The election is intended to mitigate volatility in net income that had been caused by measuring the loans on a different basis than credit default swaps which referenced notes of the same obligors and to align the accounting on the loans with our risk management practices.

Interest on funded loans is reflected in accrued interest receivable and recognized in interest revenue. Fair value gains and losses are based on secondary market quotes for each position. Since our election was related to floating-rate loans, all changes in the fair value are attributed to instrument-specific credit risk.

The details of the impact of this election by financial statement line caption as of Jan. 1, 2008, are presented below.



**Table of Contents****Notes to Consolidated Financial Statements** (continued)

|                                                                         | Carrying value as<br>of | Transition<br>gain/(loss)<br>recorded in | Adjusted carrying<br>value as of |
|-------------------------------------------------------------------------|-------------------------|------------------------------------------|----------------------------------|
| <i>(in millions)</i>                                                    | Jan. 1, 2008            | retained earnings                        | Jan. 1, 2008                     |
| Loans <sup>(a)</sup>                                                    | \$ 280                  | \$ (70)                                  | \$ 210                           |
| Reserve for loan losses <sup>(b)</sup>                                  | (10)                    | 10                                       | -                                |
| Accounts payable, accrued expenses and other liabilities <sup>(c)</sup> | -                       | (1)                                      | (1)                              |
| Pre-tax cumulative effect of adoption of SFAS 159                       |                         | (61)                                     |                                  |
| Deferred taxes                                                          |                         | 25                                       |                                  |
| Cumulative effect of adoption of SFAS 159                               |                         | \$ (36)                                  |                                  |

*(a) Represents loans that are carried at fair value pursuant to the fair value option. Other loans which are eligible for election, but are not managed on a fair value basis continue to be carried on an accrual basis.*

*(b) There is no allowance for loan losses recorded for loans reported under the fair value option; accordingly, the portion of the reserve for loan loss allocable to such loans was reversed.*

*(c) Represents the fair value for unfunded lending-related commitments.*

**Changes in fair value under the fair value option election**

The following table presents the changes in fair value included in foreign exchange and other trading activities in the consolidated income statement for the three and six month periods ended June 30, 2008, for the loans and unfunded lending commitments for which the fair value election was made. However, the profit and loss information presented only includes the loans that we elected to be measured at fair value under the fair value option; the related credit default swaps, which are required to be measured at fair value, are not included in the table.

**Foreign exchange and other trading activities**

| <i>(in millions)</i> | Three months ended<br>June 30, 2008 | Six months ended<br>June 30, 2008 |
|----------------------|-------------------------------------|-----------------------------------|
| Loans                | \$ 35                               | \$ 66                             |
| Other liabilities    | -                                   | (1)                               |

At June 30, 2008, the aggregate fair value and the aggregate remaining contractual principal balance outstanding for loans for which the SFAS 159 fair value option has been elected was \$276 million and \$280 million, respectively.

At June 30, 2008, the fair market value of unfunded lending-related commitments for which the fair value option was elected was a \$2 million liability, which is included in accounts payable, accrued expenses and other liabilities. The contractual amount of such commitments was \$110 million.

**Note 14 Derivatives and hedging relationships**

Derivative contracts such as futures contracts, forwards, interest rate swaps, foreign currency swaps and options, and similar products used in trading activities are recorded at fair value. With adoption of SFAS 157 on Jan. 1, 2008, fair value now considers the specific non-performance risk of both the company and its counterparties. Prior to adoption of SFAS 157, non-performance risk was measured and included within our general credit reserves. Gains and losses from derivative trading activities are included in foreign exchange and other trading activities in fee and other revenue. Unrealized gains and losses are reported on a gross basis in trading account assets and trading liabilities, after taking into consideration master netting agreements.

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We enter into various derivative financial instruments for non-trading purposes primarily as part of our asset/liability management ( ALM ) process. These derivatives are designated as fair value and cash flow hedges of certain assets and liabilities when we enter into the derivative contracts. Gains and losses associated with fair value hedges are recorded in income as well as any change in the value of the related hedged item. Gains and losses on cash flow hedges are recorded in other comprehensive income. If a derivative used in ALM does not qualify as a hedge, it is marked-to- market and the gain or loss is included in foreign exchange and other trading activities in fee and other revenue.

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**Notes to Consolidated Financial Statements** (continued)

We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets or liabilities on the balance sheet.

We formally assess both at the hedge's inception and on an ongoing basis whether the derivatives that are used in hedging transactions are highly effective and whether those derivatives are expected to remain highly effective in future periods. We evaluate ineffectiveness in terms of amounts that could impact a hedge's ability to qualify for hedge accounting and the risk that the hedge could result in more than a de minimus amount of ineffectiveness. At inception, the potential causes of ineffectiveness related to each of our hedges is assessed to determine if we can expect the hedge to be highly effective over the life of the transaction and to determine the method for evaluating effectiveness on an ongoing basis. Recognizing that changes in the value of derivatives used for hedging or the value of hedged items could result in significant ineffectiveness, we have processes in place designed to identify and evaluate such changes when they occur. Quarterly, we perform a quantitative effectiveness assessment and record any ineffectiveness.

We discontinue hedge accounting prospectively when we determine that a derivative is no longer an effective hedge, the derivative expires, is sold, or management discontinues the derivative's hedge designation. Subsequent gains and losses on these derivatives are included in foreign exchange and other trading activities.

The accounting policy for the determination of the value of derivatives when quoted market prices are not available has been identified as a critical accounting estimate as it requires us to make numerous assumptions based on the available market data.

We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations. For hedges of fixed rate loans, asset-backed securities, deposits and long-term debt, the hedge documentation specifies the terms of the hedged

items and interest rate swaps and indicates that the derivative is hedging a fixed rate item and is a fair value hedge, that the hedge exposure is to the changes in the fair value of the hedged item due to changes in benchmark interest rates, and that the strategy is to eliminate fair value variability by converting fixed rate interest payments to LIBOR.

The fixed rate loans hedged generally have an original maturity of 9 to 12 years and are not callable. These loans are hedged with pay fixed rate, receive variable rate swaps with similar notional amounts, maturities, and fixed rate coupons. The swaps are not callable. At June 30, 2008, \$29 million of loans were hedged with interest rate swaps which had notional values of \$29 million.

The securities hedged generally have an original weighted-average life of 10 years or less and are callable six months prior to maturity. These securities are hedged with pay fixed rate, receive variable rate swaps of like maturity, repricing and fixed rate coupon. The swaps are callable six months prior to maturity. At June 30, 2008, \$221 million of securities were hedged with interest rate swaps which had notional values of \$221 million.

The fixed rate deposits hedged generally have original maturities of 3 to 12 years and, except for four deposits, are not callable. These deposits are hedged with receive fixed rate, pay variable rate swaps of similar maturity, repricing and fixed rate coupon. The swaps are not callable except for the four that hedge the callable deposits. At June 30, 2008, \$610 million of deposits were hedged with interest rate swaps which had notional values of \$610 million.

The fixed rate long-term debt hedged generally has an original maturity of 5 to 30 years. We issue both callable and non-callable debt. The non-callable debt is hedged with simple interest rate swaps similar to those described for deposits. Callable debt is hedged with callable swaps where the call dates of the swaps exactly match the call dates of the debt. At June 30, 2008, \$10.6 billion of debt was hedged with interest rate swaps which had notional values of \$9.8 billion.





**Table of Contents****Notes to Consolidated Financial Statements** (continued)

In addition, we enter into foreign exchange hedges. We use forward foreign exchange contracts with maturities of 12 months or less to hedge our Sterling and Euro foreign exchange exposure with respect to forecasted revenue transactions in non-U.S. entities which have the U.S. dollar as their functional currency. As of June 30, 2008, the hedged forecasted foreign currency transactions and linked FX forward hedges were \$99 million, with \$2 million (pre-tax) of losses recorded in other comprehensive income. These losses are expected to be reclassified to expense over the next six months.

Forward foreign exchange contracts are also used to hedge the value of our investments in foreign subsidiaries. These forward contracts usually have a maturity of less than two years. The derivatives employed are designated as net investment hedges of changes in value of our foreign investment due to exchange rates, such that changes in value of the forward exchange contracts offset the changes in value of the foreign investments due to changes in foreign exchange rates. The change in fair market value of these contracts is deferred and reported within accumulated translation adjustments in shareholders' equity, net of tax effects. At June 30, 2008, foreign exchange contracts, with notional amounts totaling \$6.3 billion, were designated as hedges.

Ineffectiveness related to derivatives and hedging relationships was recorded in income as follows:

| <b>Ineffectiveness</b>                          | Six months ended |                            |
|-------------------------------------------------|------------------|----------------------------|
|                                                 | <b>June 30,</b>  | <b>June 30,</b>            |
| <i>(in millions)</i>                            | <b>2008</b>      | <b>2007 <sup>(a)</sup></b> |
| Fair value hedges of loans                      | <b>\$ 0.1</b>    | \$ (0.1)                   |
| Fair value hedge of securities                  | <b>(0.1)</b>     | 0.1                        |
| Fair value hedge of deposits and long-term debt | <b>0.7</b>       | (1.1)                      |
| Cash flow hedges                                | <b>(0.1)</b>     | (0.5)                      |
| Other <sup>(b)</sup>                            | <b>0.1</b>       | -                          |
| Total                                           | <b>\$ 0.7</b>    | \$ (1.6)                   |

*(a) Legacy The Bank of New York only.*

*(b) Includes ineffectiveness recorded on foreign exchange hedges.*

**Note 15 Commitments and contingent liabilities**

In the normal course of business, various commitments and contingent liabilities are outstanding which are not reflected in the accompanying consolidated balance sheets.

Our significant trading and off-balance sheet risks are securities, foreign currency and interest rate risk management products, commercial lending commitments, letters of credit, and securities lending indemnifications. We assume these risks to reduce interest rate and foreign currency risks, to provide customers with the ability to meet credit and liquidity needs, to hedge foreign currency and interest rate risks, and to trade for our own account. These items involve, to varying degrees, credit, foreign exchange, and interest rate risk not recognized in the balance sheet. Our off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. Significant industry concentrations related to credit exposure are disclosed in the Financial institutions portfolio exposure on page 47 and the Commercial portfolio exposure table on page 48. Those tables are incorporated by reference into these Notes to Consolidated Financial Statements. Major concentrations in securities lending are primarily to broker/dealers and are generally collateralized with cash. Securities lending transactions are discussed below.

A summary of our off-balance sheet credit transactions, net of participations, at June 30, 2008 and Dec. 31, 2007 follows:

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| Off-balance sheet credit risks           | June 30,         | Dec. 31, |
|------------------------------------------|------------------|----------|
| <i>(in millions)</i>                     | <b>2008</b>      | 2007     |
| Lending commitments <sup>(a)</sup>       | <b>\$ 45,997</b> | \$49,055 |
| Standby letters of credit <sup>(b)</sup> | <b>13,459</b>    | 13,813   |
| Commercial letters of credit             | <b>1,070</b>     | 1,167    |
| Securities lending indemnifications      | <b>567,027</b>   | 618,487  |

*(a) Net of participations totaling \$576 million at June 30, 2008 and \$763 million at Dec. 31, 2007.*

*(b) Net of participations totaling \$2.397 billion at June 30, 2008 and \$2.576 billion at Dec. 31, 2007.*

The total potential loss on undrawn lending commitments, standby and commercial letters of credit, and securities lending indemnifications is equal to the total notional amount if drawn upon, which does not consider the value of any collateral. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. We also extend facilities which provide liquidity, primarily for variable rate tax-exempt securities wrapped by monoline insurers. The credit approval for these facilities is based on an assessment of the underlying tax exempt issuer

The Bank of New York Mellon Corporation 89

**Table of Contents****Notes to Consolidated Financial Statements** (continued)

and considers factors other than the financial strength of the monoline insurer. The allowance for lending-related commitments was \$133 million at June 30, 2008 and \$167 million at Dec. 31, 2007. A summary of lending commitment maturities at June 30, 2008 is as follows: \$17 billion less than one year; \$28 billion in one to five years; and \$1 billion over five years.

Standby letters of credit principally support corporate obligations and include \$750 million that were collateralized with cash and securities on June 30, 2008 and \$683 million on Dec. 31, 2007. At June 30, 2008, approximately \$8.6 billion of the standby letters of credit were scheduled to expire within one year.

The estimated liability for losses related to lending commitments and standby letters of credit, if any, is included in the reserve for unfunded commitments.

A securities lending transaction is a fully collateralized transaction in which the owner of a security agrees to lend the security through an agent (The Bank of New York Mellon) to a borrower, usually a broker/dealer or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which generally matures in less than 90 days. We generally lend securities with indemnification against broker default. We generally require the borrower to provide 102% cash collateral which is monitored on a daily basis, thus reducing credit risk. Security lending transactions are generally entered into only with highly-rated counterparties. Securities lending indemnifications were secured by collateral of \$580 billion at June 30, 2008 and \$637 billion at Dec. 31, 2007.

The notional amounts for other off-balance sheet risks (see *Trading Activities* in the MD&A section) express the dollar volume of the transactions; however, credit risk is much smaller. We perform credit reviews and enter into netting agreements to minimize the credit risk of foreign currency and interest rate risk management products. We enter into offsetting positions to reduce exposure to foreign exchange and interest rate risk.

*Asset-backed commercial paper conduit*

Since 2000, we have sold and distributed securities for Old Slip Funding, LLC ( OSF ), an asset-backed commercial paper securitization program. We service the program and receive a market-based fee of approximately five basis points that is adequate to compensate us for our servicing responsibilities. As a result, there is no servicing asset or liability.

A third party holds the first loss position in OSF, which is designed to absorb the majority of any expected losses. The first loss note holder commitment is \$5 million. The Company provides additional liquidity and credit enhancement to OSF's commercial paper securitization program through total rate of return swaps and a subordinated loan. The swaps are constructed to mature as the commercial paper matures. To the extent there is a liquidity issue impacting the paying ability of the underlying assets or if the underlying assets undergo a credit default, the swaps are designed to ensure the timely payments to the beneficial interest holders.

At June 30, 2008, the authorized size of the program was \$150 million. OSF is funded by commercial paper (98%) and a subordinated funding loan (2%). OSF experienced no funding difficulties and did not require liquidity support in the second quarter of 2008. There were no material write-downs of assets held by OSF in the second quarter of 2008. At June 30, 2008, OSF held a \$129 million book-value asset portfolio consisting of mortgage-backed securities, 92% of which were rated AAA and 8% were rated A. At June 30, 2008, a FIN 46R analysis was performed on OSF and it was not subject to consolidation by the Company. Consolidation of OSF would be immaterial to the assets of the Company.

*Municipal bond securitizations*

We sponsor approximately \$119 million of municipal bond securitizations for which no gain was recognized. These securitizations are comprised of \$102 million which are Aaa insured and \$17 million which are A2 insured, quarterly variable rate bonds with borrowers rated no lower than A2 on Moody's municipal bond scale. All transactions were done at par value. These



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### Notes to Consolidated Financial Statements (continued)

transactions generate approximately \$1 million of annual pre-tax equivalent income.

#### *Other*

We have provided standard representations for underwriting agreements, acquisition and divestiture agreements, sales of loans and commitments, and other similar types of arrangements and customary indemnification for claims and legal proceedings related to providing financial services. Insurance has been purchased to mitigate certain of these risks. We are a minority equity investor in, and member of, several industry clearing or settlement exchanges through which foreign exchange, securities, or other transactions settle. Certain of these industry clearing or settlement exchanges require their members to guarantee their obligations and liabilities or to provide financial support in the event other partners do not honor their obligations. It is not possible to estimate a maximum potential amount of payments that could be required with such agreements.

In the ordinary course of business, we make certain investments that have tax consequences which the IRS may question, or challenge the tax position we have taken. We engaged in certain types of structured cross-border leveraged leasing investments, referred to as LILOs, prior to mid-1999 that the IRS has challenged. In 2004, the IRS proposed adjustments to our tax treatment of these transactions. On Feb. 28, 2006, we settled this matter with the IRS relating to LILO transactions closed in 1996 and 1997.

Our 1998 LILO transactions are in a subsequent audit cycle and were not part of the settlement. Negotiations are ongoing and the treatment of the 1998 leases may still be litigated if an acceptable settlement cannot be reached.

In the fourth quarters of 2005 and 2007 and the second quarter of 2008, we deposited funds with the IRS in anticipation of reaching a settlement on the 1998 LILO investments and other potential exposures.

On Feb. 11, 2005, the IRS released Notice 2005-13, which identified certain lease investments known as SILOs as potentially subject to IRS challenge. On Sept. 6, 2007, we received a draft Form 5701, *Notice of Proposed Adjustment*, denying the tax benefits associated with certain of our so-called SILOs.

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 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. 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.

Based on a probability assessment of various potential outcomes, we currently believe our accruals for tax liabilities are adequate for all open years. Probabilities and outcomes are reviewed as events unfold, and adjustments to the tax liabilities are made when appropriate.

As previously disclosed, in connection with the acquisition of the Acquired Corporate Trust Business of JPMorgan Chase, we were required to file various IRS information and withholding tax returns. While preparing these returns in 2007, we identified certain inconsistencies in the supporting tax documentation and records transferred to us that were needed to file accurate returns. For additional information, see *Legal Proceedings*.

As previously disclosed, in the fourth quarter of 2007, we also discovered that other business lines, including the legacy The Bank of New York



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**Notes to Consolidated Financial Statements** (continued)

corporate trust business, may have similar issues and initiated an extensive company-wide review to identify any inconsistencies in the supporting tax documents. Any deficiencies that are identified will be promptly remediated. We made an initial disclosure of this matter to the IRS on a voluntary basis in the fourth quarter of 2007 and we continue to work diligently with the IRS to help resolve the matter. Any exposure resulting from this matter is uncertain and cannot currently be reasonably estimated.

**Note 16 Business segments**

For details of our business segments, see Business segments review on page 20 through the bullet points on page 21, and the tables, through Average assets (excluding pre-tax operating margin ) on pages 22 through 24. For details of the primary types of fee revenue

generated by each segment, see the sector/segment overview table on page 9. The tables and information in those paragraphs are incorporated by reference into these Notes to Consolidated Financial Statements.



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### **Item 4. Controls and Procedures.**

#### **Disclosure controls and procedures**

Our management, including the Chief Executive Officer and Chief Financial Officer, with participation by the members of the Disclosure Committee, has responsibility for ensuring that there is an adequate and effective process for establishing, maintaining, and evaluating disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in our SEC reports is timely recorded, processed, summarized and reported and that information required to be disclosed by the Company is accumulated and communicated to the Company's management to allow timely decisions regarding the required disclosure. In addition, our ethics hotline can also be used by employees and others for the anonymous communication of concerns about financial controls or reporting matters. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

#### **Changes in internal control over financial reporting**

In the ordinary course of business, we may routinely modify, upgrade or enhance our internal controls and procedures for financial reporting. There have not been any changes in our internal controls over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act during the second quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except changes resulting from the merger with Mellon Financial being implemented to incorporate Mellon Financial's operations with The Bank of New York's systems of internal control.

**Table of Contents****Forward-looking Statements and Risk Factors.**

Some statements in this document are forward-looking. These include all statements about the future results of the Company, projected business growth, statements with respect to the merger of The Bank of New York and Mellon Financial with and into the Company, expectations with respect to operations after the merger, the expected outcome and impact of legal, regulatory and investigatory proceedings, and the Company's plans, objectives and strategies. In addition, these forward-looking statements relate to: expectations with respect to merger-related expense synergies and total merger and integration expenses; potential segment restructurings; expected tax rates; the effect of changes in market indices; potential earnouts resulting from the sale of the B-Trade and G-Trade execution businesses; the computation of our future capital adequacy; the ability of our business model to benefit from long-term trends; growth opportunities in international markets; the potential impact of the use of valuation models to estimate fair value; ability and intention to hold certain securities; the potential liquidation of a SIV and the results of any such liquidation; the adequacy of reserves for potential losses for loans to SIVs; potential future capital support agreements; repayment of overdrafts; the call of outstanding debt and the refinancing and replacement of such debt; our liquidity target; our expectations regarding our ability to generate capital and the unrealized loss on the securities portfolio; measurements of credit losses; treatment of trust-preferred securities as Tier I capital under recently-adopted transition rules and final rules of the FRB; expectations with respect to the adoption of recent accounting pronouncements and developments; the timing and potential impact of recent and anticipated acquisitions and dispositions; estimated annual amortization for current intangibles for future years; potential changes in pension costs; expectations with regard to portfolio exposures; resolution of certain tax examinations and the impact of those resolutions; expectations with respect to various commitments and contingent liabilities entered into in the normal course of business; resolution of matters relating to LILO and SILO transactions and the impact of those resolutions; the potential impact of consolidation of OSF, if required; the impact of judgments and settlements, if any, arising from pending or potential legal actions or regulatory matters; and defenses to the allegations raised in the claim raised by The Federal Customs Service of the Russian Federation and defenses to attempted enforcement of a related judgment. In this report, any other report, any press release or any written or oral statement that the Company or its executives may make, words such as estimate, forecast, project, anticipate, confident,

target, expect, intend, seek, believe, plan, goal, could, should, may, will, strategy, synergies, opportunities, trends, pro forma and words of similar meaning, signify forward-looking statements.

Factors that could cause the Company's results to differ materially from those described in the forward-looking statements, as well as other uncertainties affecting future results and the value of the Company's stock and factors which represent risks associated with the business and operations of the Company can be found in the Risk Factors and the Forward-looking Statements and Risk Factors sections included in the Company's Annual Report on Form 10-K for the year ended Dec. 31, 2007, and may also be found in subsequent reports filed with the Securities and Exchange Commission (the Commission) by the Company pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act).

Forward-looking statements, including discussions and projections of future results of operations and discussions of future plans contained in the MD&A and elsewhere in this Form 10-Q are based on management's current expectations and assumptions that involve risks and uncertainties and that are subject to change based on various important factors (some of which are beyond the Company's control), including adverse changes in market conditions and the timing of such changes, and the actions that management could take in response to these changes. Actual results may differ materially from those expressed or implied as a result of these risks and uncertainties and the risks and uncertainties described in the documents referred to in the preceding paragraph. The Risk Factors discussed in Form 10-K for the year ended Dec. 31, 2007 could cause or contribute to such differences. Investors should consider all risks mentioned elsewhere in this document, and in subsequent reports filed by the Company with the Commission pursuant to the Exchange Act, as well as other uncertainties affecting future results and the value of the Company's stock.

All forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any statement to reflect events or circumstances after the date on which such forward-looking statement is made or to reflect the occurrence of unanticipated events.

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**Part II Other information.**

**Item 1. Legal Proceedings.**

In the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to a number of pending and potential legal actions, including actions brought on behalf of various classes of claimants, and regulatory matters. Claims for significant monetary damages are asserted in certain of these actions and proceedings. In regulatory enforcement matters, claims for disgorgement and the imposition of penalties and/or other remedial sanctions are possible. Due to the inherent difficulty of predicting the outcome of such matters, the Company cannot ascertain what the eventual outcome of these matters will be; however, on the basis of current knowledge and after consultation with legal counsel, we do not believe that enforceable judgments or settlements, if any, arising from pending or potential legal actions or regulatory matters, either individually or in the aggregate, after giving effect to applicable reserves and insurance coverage, will have a material adverse effect on the consolidated financial position or liquidity of the Company, although they could have a material effect on net income for a given period. The Company intends to defend itself vigorously against all of the claims asserted in these legal actions.

As previously disclosed in the Company's Annual Report on Form 10-K, The Federal Customs Service of the Russian Federation is pursuing a claim against The Bank of New York (BNY), now known as The Bank of New York Mellon. The claim is based on allegations relating to the previously disclosed Russian funds transfer matter that was the subject of the Bank's Non-Prosecution Agreement and alleges violations of U.S. law by the Bank in failing to supervise and monitor funds transfer activities at the Bank. This lack of action is alleged to have resulted in underpayment to the Russian Federation of the value added taxes that were allegedly due to be paid by customers of the Bank's correspondent clients on certain goods imported into the country. The claim seeks \$22.5 billion in direct and indirect losses.

The Bank has been defending itself vigorously in this matter and intends to continue to do so. The Bank believes it has meritorious procedural and substantive defenses to the allegations in the

Russian courts and also believes it has meritorious defenses to an attempted enforcement of a judgment outside the Russian Federation in countries in which the Bank has material assets if a judgment were to be entered in this matter by the Russian courts.

As previously disclosed in the Company's Annual Report on Form 10-K, in 2001 and 2002, we entered into various structured transactions that involved, among other things, the payment of U.K. corporate income taxes that were credited against our U.S. corporate income tax liability. The IRS continues to review these transactions and it is likely that some or all of the credits will be challenged upon completion of the review.

As previously discussed in the Company's Annual Report on Form 10-K, on Oct. 9, 2007, we received a letter from the IRS informing us that the IRS is considering designating one such transaction for litigation. If designated, we are prepared to defend our position and we believe that any tax benefits associated with these transactions were consistent with the applicable statutory, judicial and administrative authority existing at the time they were entered into.

As previously disclosed in the Company's Annual Report on Form 10-K, the Bank filed a proof of claim on Jan. 18, 2008, in the Chapter 11 bankruptcy of Sentinel Management Group, Inc. (Sentinel), seeking to recover approximately \$312 million loaned to Sentinel and secured by securities and cash in an account maintained by Sentinel at the Bank. At the time of the bankruptcy, the cash and securities collateral for the loan were valued at over \$600 million. On March 3, 2008, the Chapter 11 Trustee for Sentinel filed an adversary proceeding against BNY seeking to disallow the Bank's claim and asserting a claim for damages against the Bank under a variety of theories including that the Bank aided and abetted certain insiders of Sentinel in mis-appropriating customer assets and improperly using those assets as collateral for the loan. In January 2008, the Bank learned that the Commodities Futures Trading Commission (the CFTC) opened an investigation that includes a review of Sentinel's relationship with the Bank. While the timing and outcome of the bankruptcy is uncertain, the Company intends to vigorously pursue its claim.

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**Part II - Other Information.** (continued)

As previously disclosed in the Company's Annual Report on Form 10-K, the U.S. Securities and Exchange Commission (SEC) is investigating the trading activities of Pershing Trading Company LP, a floor specialist, on two regional exchanges from 1999 to 2004. Because the conduct at issue is alleged to have occurred largely during the period when Pershing was owned by Credit Suisse First Boston (USA), Inc. (CSFB), the Company has made claims for indemnification against CSFB relating to this matter under the agreement relating to the acquisition of Pershing. CSFB is disputing these claims for indemnification.

As previously disclosed in the Company's Annual Report on Form 10-K, in connection with the acquired JPMorgan Chase corporate trust business, the Bank was required to file various IRS information and withholding tax returns for 2006. In preparing to do so, the Bank identified certain inconsistencies in the supporting tax documentation and records transferred to the Bank that were needed to file accurate returns. The Company and JPMorgan Chase jointly disclosed this matter to the IRS on a voluntary basis in a meeting on Sept. 7, 2007. The Company and JPMorgan Chase are now in advanced discussions with the IRS, which if successful, will resolve the information reporting and withholding issues presented. While there can be no assurance, the Company believes that after remediation the potential financial exposure will be immaterial, and, in any event, the Bank is indemnified by JPMorgan Chase for the 2006 tax withholding and reporting obligations associated with the acquisition.

The Company self-disclosed to the SEC that Mellon Financial Markets LLC (MFM) placed orders on behalf of issuers to purchase their own Auction Rate Securities. The SEC is conducting an investigation of those transactions. MFM is cooperating fully with the SEC in its investigation.

In the course of a routine review of customer accounts at Mellon Securities LLC (Mellon Securities), the Company became aware of circumstances suggesting that employees of Mellon Securities, which executes orders to purchase and sell securities on behalf of Mellon Investor Services LLC, failed to comply with certain best execution and regulatory requirements in connection with agency cross trades. The Company is reviewing the

trades and is in the process of determining the extent of any remediation. The Company self-disclosed this matter to the Financial Industry Regulatory Authority (FINRA) and the SEC on a voluntary basis.

In December 2004, the National Association of Securities Dealers (NASD) commenced an inquiry into BNY Capital Markets, Inc. (now BNY Mellon Capital Markets LLC, BNY MCM) concerning the participation in certain partial tender offers for publicly traded securities by a small group of former traders, which was prompted by BNY MCM's disclosure to the NASD that it had identified certain instances in which BNY MCM tendered in excess of the firm's net long position in the underlying securities, in violation of SEC Rule 14e-4. In late July 2008, the staff of FINRA, the successor to the NASD, informed the Company that it has made a preliminary determination to recommend disciplinary action in connection with seven partial tender offers and BNY MCM's supervision of these activities. FINRA has invited BNY MCM to submit a Wells submission setting forth any defenses or arguments it may have against a disciplinary action, and BNY MCM intends to make such a submission in late August 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(a) Shares of the Company's common stock were issued in the following transaction, exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof; 2,728 shares of common stock were issued on April 11, 2008 to a former director of The Bank of New York who had deferred receipt of such common stock pursuant to the Deferred Compensation Plan for Non-Employee Directors of The Bank of New York, Inc.

(c) The following table discloses repurchases of our common stock made in the second quarter of 2008.



**Table of Contents****Part II - Other Information.** (continued)*Issuer purchases of equity securities***Share repurchases during second quarter 2008**

|                                         | Total              | Average  | Total        |
|-----------------------------------------|--------------------|----------|--------------|
| <i>(common shares<br/>in thousands)</i> | shares             | price    | shares       |
|                                         | repurchased        | per      | repurchased  |
|                                         |                    | share    | as part of a |
|                                         |                    |          | publicly     |
|                                         |                    |          | announced    |
|                                         |                    |          | plan         |
| April 2008                              | 443                | \$ 43.18 | -            |
| May 2008                                | -                  | -        | -            |
| June 2008                               | -                  | -        | -            |
| Second quarter 2008                     | 443 <sup>(a)</sup> | \$ 43.18 | -            |

*(a) Includes 443 thousand shares at a purchase price of approximately \$19 million purchased from employees primarily in connection with the employees' payment of taxes upon the vesting of restricted stock.*

On Dec. 18, 2007, the Board of Directors of the Company authorized the repurchase of up to 35 million shares of common stock. There were no shares repurchased in the second quarter of 2008 under this program.

At June 30, 2008, 33.8 million shares were available for repurchase under the December 2007 program. There is no expiration date on this remaining repurchase program.

**Item 4. Submission of Matters to a Vote of Security Holders.**

At the Company's Annual Meeting of Shareholders, held on April 8, 2008, for which proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, the following matters were voted upon by shareholders.

- The election of 18 directors for a term expiring in 2009:

| Name of Director     | Votes       |             |
|----------------------|-------------|-------------|
|                      | For         | Withheld    |
| Frank J. Biondi, Jr. | 896,403,048 | 73,729,210  |
| Ruth E. Bruch        | 942,438,104 | 27,694,154  |
| Nicholas M. Donofrio | 906,639,252 | 63,493,006  |
| Steven G. Elliott    | 947,585,457 | 22,546,801  |
| Gerald L. Hassell    | 905,830,871 | 64,301,387  |
| Edmund F. Kelly      | 942,704,336 | 27,427,922  |
| Robert P. Kelly      | 947,608,454 | 22,523,804  |
| Richard J. Kogan     | 900,559,790 | 69,572,468  |
| Michael J. Kowalski  | 906,658,999 | 63,473,259  |
| John A. Luke, Jr.    | 869,004,480 | 101,127,778 |
| Robert Mehrabian     | 936,063,403 | 34,068,855  |
| Mark A. Nordenberg   | 936,171,912 | 33,960,346  |

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|                       |             |            |
|-----------------------|-------------|------------|
| Catherine A. Rein     | 900,363,477 | 69,768,781 |
| Thomas A. Renyi       | 901,763,095 | 68,369,163 |
| William C. Richardson | 900,429,346 | 69,702,912 |
| Samuel C. Scott, III  | 889,778,273 | 80,353,985 |
| John P. Surma         | 936,644,305 | 33,487,953 |
| Wesley W. von Schack  | 945,039,438 | 25,092,820 |

2. Approval of the adoption of The Bank of New York Mellon Corporation Long-Term Incentive Plan (approved by a majority of votes cast):

|                   |             |  |
|-------------------|-------------|--|
| For:              | 688,411,430 |  |
| Against:          | 148,678,926 |  |
| Abstain:          | 11,032,816  |  |
| Broker non-votes: | 122,009,086 |  |

3. Approval of the adoption of The Bank of New York Mellon Corporation Employee Stock Purchase Plan (approved by a majority of votes cast):

|                   |             |  |
|-------------------|-------------|--|
| For:              | 821,352,149 |  |
| Against:          | 16,559,841  |  |
| Abstain:          | 10,211,183  |  |
| Broker non-votes: | 122,009,085 |  |

4. Approval of the adoption of The Bank of New York Mellon Corporation's Executive Incentive Compensation Plan (approved by a majority of votes cast):

|                   |             |  |
|-------------------|-------------|--|
| For:              | 886,555,312 |  |
| Against:          | 70,436,024  |  |
| Abstain:          | 13,140,918  |  |
| Broker non-votes: | -           |  |

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**Part II - Other Information.** (continued)

5. Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for fiscal year 2008 (approved by a majority of votes cast):

|                   |             |
|-------------------|-------------|
| For:              | 950,456,524 |
| Against:          | 9,726,796   |
| Abstain:          | 9,948,939   |
| Broker non-votes: | -           |

6. Approval of stockholder proposal requesting cumulative voting in the election of directors (not approved by a majority of votes cast):

|                   |             |
|-------------------|-------------|
| For:              | 317,536,697 |
| Against:          | 517,987,118 |
| Abstain:          | 12,593,758  |
| Broker non-votes: | 122,014,685 |

7. Approval of stockholder proposal with respect to a stockholder vote on an advisory resolution to ratify the compensation of the named executives (not approved by a majority of votes cast):

|                   |             |
|-------------------|-------------|
| For:              | 365,962,459 |
| Against:          | 425,795,236 |
| Abstain:          | 56,365,480  |
| Broker non-votes: | 122,009,083 |

Abstentions and broker non-votes are not counted as votes cast.

**Item 6. Exhibits.**

Pursuant to the rules and regulations of the Securities and Exchange Commission, the Company has filed certain agreements as exhibits to this Quarterly Report on Form 10-Q. These agreements may contain representations and warranties by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may have been qualified by disclosures made to such other party or parties, (ii) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments, which may not be fully reflected in our public disclosure, (iii) may reflect the allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors.

Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

- 2.1 Amended and Restated Agreement and Plan of Merger, dated as of Dec. 3, 2006, as amended and restated as of Feb. 23, 2007, and as further amended and restated as of March 30, 2007, between The Bank of New York Company, Inc., Mellon Financial Corporation and The Bank of New York Mellon Corporation (the Company), incorporated by reference to Exhibit 2.1 to the Company's Current Report on



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Form 8-K as filed with the Commission on July 2, 2007.

- 3.1 Restated Certificate of Incorporation of The Bank of New York Mellon Corporation, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the Commission on July 2, 2007.
- 3.2 Amended and Restated By-Laws of The Bank of New York Mellon Corporation, as amended and restated on July 10, 2007, incorporated by reference to Exhibit 3.2 to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, as filed with the Commission on Aug. 8, 2007.
- 4.1 None of the instruments defining the rights of holders of long-term debt of The Company, the creation of which was disclosed in this Quarterly Report on Form 10-Q, represented long-term debt in excess of 10% of the total assets of The Company as of June 30, 2008. The Company hereby agrees to furnish to the Commission, upon request, a copy of any such instrument.
- 10.1 Form of Long Term Incentive Plan Deferred Stock Unit Agreement for Directors of The Bank of New York Corporation.
- 12.1 Ratio of Earnings to Fixed Charges.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE BANK OF NEW YORK MELLON CORPORATION  
(Registrant)

Date: August 8, 2008

By: /s/ John A. Park  
John A. Park  
Corporate Controller  
(Duly Authorized Officer and  
Principal Accounting Officer of  
the Registrant)

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| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                  | Method of Filing                                                                                                                                                                      |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1         | Amended and Restated Agreement and Plan of Merger, dated as of Dec. 3, 2006, as amended and restated as of Feb. 23, 2007, and as further amended and restated as of March 30, 2007, between The Bank of New York Company, Inc., Mellon Financial Corporation and The Bank of New York Mellon Corporation ( The Company ).                                                    | Previously filed as Exhibit 2.1 to The Company's Current Report on Form 8-K (File Nos. 000-52710 and 001-06152) as filed with the Commission on July 2, 2007.                         |
| 3.1         | Restated Certificate of Incorporation of The Bank of New York Mellon Corporation.                                                                                                                                                                                                                                                                                            | Previously filed as Exhibit 3.1 to The Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 2, 2007.                                        |
| 3.2         | Amended and Restated By-Laws of The Bank of New York Mellon Corporation, as amended and restated on July 10, 2007.                                                                                                                                                                                                                                                           | Previously filed as Exhibit 3.2 to The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, (File No. 000-52710) as filed with the Commission on Aug. 8, 2007. |
| 4.1         | None of the instruments defining the rights of holders of long-term debt of The Company, the creation of which was disclosed in this Quarterly Report on Form 10-Q, represented long-term debt in excess of 10% of the total assets of The Company as of June 30, 2008. The Company hereby agrees to furnish to the Commission, upon request, a copy of any such instrument. |                                                                                                                                                                                       |
| 10.1        | Form of Long Term Incentive Plan Deferred Stock Unit Agreement for Directors of The Bank of New York Corporation.                                                                                                                                                                                                                                                            | Filed herewith.                                                                                                                                                                       |
| 12.1        | Ratio of Earnings to Fixed Charges.                                                                                                                                                                                                                                                                                                                                          | Filed herewith.                                                                                                                                                                       |
| 31.1        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                          | Filed herewith.                                                                                                                                                                       |
| 31.2        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                          | Filed herewith.                                                                                                                                                                       |
| 32.1        | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                          | Furnished herewith.                                                                                                                                                                   |
| 32.2        | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                          | Furnished herewith.                                                                                                                                                                   |