Bank of New York Mellon CORP
Form 10-Q
August 08, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2007

or

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

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-52710

THE BANK OF NEW YORK MELLON CORPORATION

(Exact name of registrant as specified in its charter)

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

One Wall Street

New York, New York 10286

(Address of principal executive offices) (Zip Code)

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

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

Yes ü No __

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

Large accelerated filer [ü] Accelerated filer [ ] Non-accelerated filer [ ]

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

Yes __ No ü

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

Class	Outstanding as of July 31, 2007
Common Stock, $.01 par value	1,137,850,691

Table of Contents

THE BANK OF NEW YORK MELLON CORPORATION

SECOND QUARTER 2007 FORM 10-Q

TABLE OF CONTENTS

Table of Contents

Introduction

On July 1, 2007, The Bank of New York Company, Inc. (The Bank of New York) and Mellon Financial Corporation (Mellon) merged into The Bank of New York Mellon Corporation (The Bank of New York Mellon or BNY Mellon), with BNY Mellon being the surviving entity. The merger was accounted for as a purchase of Mellon for accounting and financial reporting purposes. As a result, the historical financial statements of the combined company presented in this Form 10-Q are the historical financial statements of The Bank of New York. In this document, references to our, we, us, the company, the Company, the Corporation and similar terms for periods prior to July 1, 2007 refer to The Bar New York, and references to our, we, us, the company, the Company, the Corporation and similar terms for periods on and after July 1, 2 refer to BNY Mellon.

The combined company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing and execution services and treasury services through a world wide client focused team. It has more than $20 trillion in assets under custody and administration and more than $1 trillion in assets under management, and it services $10 trillion in outstanding debt.

The combined company has annual revenues of more than $13 billion, with approximately 30% derived from asset servicing, 40% from issuer services, clearing and execution services and treasury services, and 30% from asset and wealth management. By the end of 2008, BNY Mellon is expected to generate over $1 billion of tangible capital per quarter. We will be well positioned to capitalize on global growth trends, including the evolution of emerging markets, the increasing need for more complex financial products and services, and the increasingly global need for people to save and invest for retirement. Almost a third of our combined revenue is derived internationally.

Financial results for Mellon are included in the Merger with Mellon section of this report. See pages 54 to 65. In addition, The Bank of New York Mellon Corporation will file a Form 8-K/A, which will include Mellon s financial statements and notes for the six month periods ended June 30, 2007 and 2006, and a pro forma combined balance sheet for The Bank of New York Mellon as of June 30, 2007 and pro forma combined income statements for The Bank of New York Mellon for the six months ended June 30, 2007 and for the full year 2006. The combined financial statements for The Bank of New York Mellon will include the pro forma impact of purchase accounting adjustments resulting from the merger.

The merger transaction resulted in The Bank of New York shareholders receiving .9434 shares of The Bank of New York Mellon common stock for each share of The Bank of New York common stock outstanding on the closing date of the merger. All earnings per share and common share outstanding amounts, in this Form 10-Q, have been restated to reflect this exchange ratio. See page 69 for additional information.

Table of Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS (unaudited)

The Bank of New York Mellon Corporation

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended **June 30, 2007**	March 31, 2007	June 30, 2006	Six months ended **June 30, 2007**	June 30, 2006
Reported results					
Net income	**$ 445**	$ 434	$ 448	**$ 879**	$ 870
Basic EPS [(a)]	**0.63**	0.61	0.63	**1.24**	1.21
Diluted EPS [(a)]	**0.62**	0.60	0.62	**1.22**	1.20
Continuing operations					
Fee and other revenue	**$ 1,580**	$ 1,475	$ 1,370	**$ 3,055**	$ 2,635
Net interest revenue	**452**	427	358	**879**	697
Total revenue	**$ 2,032**	$ 1,902	$ 1,728	**$ 3,934**	$ 3,332
EPS from continuing operations [(a)]:					
Basic	**$ 0.63**	$ 0.62	$ 0.55	**$ 1.25**	$ 1.05
Diluted	**0.62**	0.61	0.54	**1.23**	1.03
Diluted excluding merger and integration costs [(b)]	**0.66**	0.62	0.54	**1.28**	1.03
Return on average tangible common equity	**37.27%**	39.20%	30.76%	**38.20%**	29.35%
Return on average tangible common equity excluding merger and integration costs [(b)]	**39.81**	40.09	30.76	**39.95**	29.35
Return on average common equity	**15.54**	15.70	15.85	**15.62**	15.30
Return on average common equity excluding merger and integration costs [(b)]	**16.65**	16.06	15.85	**16.36**	15.30
Fee and other revenue as a percentage of total revenue (FTE)	**78%**	77%	79%	**78%**	79%
Annualized fee and other revenue per employee *(in thousands)* (based on average headcount)	**$ 274**	$ 259	$ 275	**$ 267**	$ 266
Non-U.S.:					
Percent of revenue (FTE)	**32%**	30%	30%	**31%**	32%
Percent of pre-tax income (FTE) excluding merger and integrations costs [(b)]	**30**	24	32	**27**	25
Pre-tax operating margin (FTE)	**32%**	34%	34%	**33%**	34%
Pre-tax operating margin (FTE) excluding merger and integration costs [(b)]	**36%**	36%	35%	**36%**	34%
Net interest margin (FTE)	**2.01%**	2.18%	1.95%	**2.10%**	1.95%
Net interest revenue (FTE)	**$ 454**	$ 429	$ 365	**$ 883**	$ 711
Net income from continuing operations	**448**	437	391	**885**	751
Assets under custody and administration *(in trillions)*	**$ 14.9**	$ 13.8	$ 12.0	**$ 14.9**	$ 12.0
Equity securities	**32%**	32%	32%	**32%**	32%
Fixed income securities	**68**	68	68	**68**	68
Cross-border assets *(in trillions)*	**$ 6.2**	$ 5.0	$ 4.1	**$ 6.2**	$ 4.1
Assets under management *(in billions)*:					
Equity securities	**$ 43**	$ 41	$ 36	**$ 43**	$ 36
Fixed income securities	**22**	22	21	**22**	21
Alternative investments	**36**	33	28	**36**	28
Liquid assets	**41**	34	31	**41**	31
Foreign exchange overlay	**11**	12	11	**11**	11
Total assets under management	**$ 153**	$ 142	$ 127	**$ 153**	$ 127
Securities lending cash collateral assets (*in billions*)	**$ 365**	$ 375	$ 356	**$ 365**	$ 356
Average common shares and equivalents outstanding *(in thousands)* [(a)]					

Basic	**709,783**	708,245	713,451	**709,019**	717,014
Diluted	**722,661**	719,893	721,430	**721,285**	725,613

Table of Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS (unaudited) (continued)

The Bank of New York Mellon Corporation

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended **June 30, 2007**	March 31, 2007	June 30, 2006	Six months ended **June 30, 2007**	June 30, 2006
Capital ratios					
Tier I capital ratio [(e)]	**8.09%**	8.43%	7.96%	**8.09%**	7.96%
Total (Tier I plus Tier II capital ratio) [(e)]	**12.07**	12.81	12.06	**12.07**	12.06
Adjusted tangible shareholders equity to assets ratio [(d)(e)]	**4.53**	5.47	5.19	**4.53**	5.19
Return on average assets	**1.57%**	1.73%	1.54%	**1.65%**	1.52%
Return on average assets excluding merger and integration costs [(b)]	**1.68**	1.78	1.54	**1.73**	1.52
Return on average tangible assets	**1.74**	1.93	1.66	**1.83**	1.63
Return on average tangible assets excluding merger and integration costs [(b)]	**1.86**	1.98	1.66	**1.91**	1.63
Selected average balances					
Interest-earning assets	**$ 90,557**	$ 79,075	$ 75,380	**$ 84,847**	$ 73,219
Total assets	**114,278**	101,975	96,395	**108,217**	94,124
Interest-bearing deposits	**53,610**	43,862	43,015	**48,763**	42,144
Noninterest-bearing deposits	**15,334**	14,903	10,869	**15,120**	10,496
Shareholders equity	**11,566**	11,277	9,882	**11,422**	9,885
Credit loss provision and net charge-offs					
Total provisions	**$ (15)**	$ (15)	$ (1)	**$ (30)**	$ (1)
Total net recoveries	**5**	3	7	**8**	10
Loans					
Allowance for loan losses as a percent of total loans	**0.73%**	0.76%	0.95%	**0.73%**	0.95%
Allowance for loan losses as a percent of non-margin loans	**0.85**	0.87	1.10	**0.85**	1.10
Total allowance for credit losses as a percent of total loans	**1.08**	1.11	1.35	**1.08**	1.35
Total allowance for credit losses as a percent of non-margin loans	**1.25**	1.28	1.57	**1.25**	1.57
Nonperforming assets					
Total nonperforming assets	**$ 27**	$ 29	$ 32	**$ 27**	$ 32
Nonperforming assets ratio	**0.1%**	0.1%	0.1%	**0.1%**	0.1%
Other					
Employees	**23,200**	23,100	20,000	**23,200**	20,000
Book value per common share [(a)]	**$ 16.50**	$ 16.11	$ 13.97	**$ 16.50**	$ 13.97
Period-end shares outstanding *(in thousands)* [(a)]	**717,000**	715,403	719,607	**717,000**	719,607
Dividends per share [(a)]	**$ 0.23**	$ 0.23	$ 0.22	**$ 0.47**	$ 0.45
Dividend yield	**2.12%**	2.17%	2.61%	**2.12%**	2.61%
Closing common stock price per share [(a)]	**$ 43.93**	$ 42.98	$ 34.13	**$ 43.93**	$ 34.13
Market capitalization *(in billions)*	**31.5**	30.8	24.6	**31.5**	24.6

(a) *Earnings per share and all other share-related data has been recalculated in post-merger share terms. See page 69 for additional information.*

(b) *Calculated excluding pre-tax charges associated with merger and integration expenses ($47 million in the second quarter of 2007 and $15 million in the first quarter of 2007). The pre-tax operating margin for all periods presented also excludes intangible amortization.*

(c) *Amounts have been reclassified. See discussion on page 20.*

(d) *Includes deferred tax liabilities of $149 million for the second quarter of 2007, $154 million for the first quarter of 2007, $20 million for the second quarter of 2006, $149 million for the first six months of 2007 and $20 million for the first six months of 2006 related to non-tax deductible identifiable intangible assets.*

(e) *Includes discontinued operations.*

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.

BNY Mellon s actual results of future operations may differ from those estimated or anticipated in certain forward-looking statements contained herein for reasons which are discussed below and under the heading Forward-Looking Statements and Risk Factors. When used in this report words such as estimate, forecast, project, anticipate, confident, target, expect, intend, continue, seek, believe, plan, go will, strategy, rapidly evolving financial markets, synergies, opportunities, well-positioned, trends, pro forma and words of similar signify forward-looking statements in addition to statements specifically identified as forward-looking statements. In addition, certain business terms used in this document are defined in The Bank of New York s 2006 Annual Report on Form 10-K.

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 move and manage their financial assets in more than 100 markets worldwide. We have a long tradition of collaborating with clients to deliver innovative solutions through our core competencies: securities servicing, asset management, wealth management, and treasury management. Our extensive global client base includes a broad range of leading financial institutions, corporations, government entities, endowments and foundations. Our principal subsidiary, The Bank of New York (the Bank), founded in 1784, is the oldest bank in the United States and has consistently played a prominent role in the evolution of financial markets worldwide.

Our strategy over the past decade has been to focus on highly scalable, fee-based securities servicing and fiduciary businesses, and we have achieved top three market share in most of our major product lines. We distinguish ourselves competitively by offering one of the industry s broadest array of products and services around the investment lifecycle. These include:

- advisory and asset management services to support the investment decision;
- custody, securities lending, accounting, and administrative services for investment portfolios;
- sophisticated risk and performance measurement tools for analyzing portfolios;
- clearance and settlement capabilities and trade and foreign exchange execution; and
- services for issuers of both equity and debt securities.

By providing integrated solutions for clients needs, we strive to be the preferred partner in helping our clients succeed in the world s rapidly evolving financial markets.

Our long-term financial objectives include:

- sustaining top-line growth by expanding client relationships and winning new ones; and
- achieving positive operating leverage over an economic cycle.

To achieve our long-term objectives, we have grown both through internal reinvestment as well as execution of strategic acquisitions to expand product offerings and increase market share in our scale businesses. Internal reinvestment occurs through increased technology spending, staffing levels, marketing/branding initiatives, quality programs, and product development. We consistently invest in technology to improve the breadth and quality of our product offerings, and to increase economies of scale. Our acquisitions over the past ten years have been almost exclusively in our securities servicing and asset management areas.

We have taken recent strategic actions that have significantly transformed us.

In July 2007 we:

Completed the merger of The Bank of New York and Mellon, a global leader in asset management and securities servicing.

Announced an agreement to buy out the remaining 50% interest in the ABN AMRO Mellon joint venture. This

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)

transaction is expected to close in late third quarter or early fourth quarter of 2007.

In 2006 we:

- Sold our retail and regional middle market banking businesses (Retail Business)
- Purchased the corporate trust business (the Acquired Corporate Trust Business) of JPMorgan Chase & Co. (JPMorgan Chase)
- Formed a joint venture known as BNY ConvergEx Group, LLC, a trade execution and investment technology firm (BNY ConvergEx)

As part of the transformation to a leading securities servicing provider, we have also de-emphasized or exited several of our slower growth traditional banking businesses over the past decade. Our more significant actions include selling our credit card business in 1997 and our factoring business in 1999, significantly reducing non-financial corporate credit exposures, and most recently, the sale of our Retail Business. To the extent these actions generated capital, the capital has been reallocated to our higher-growth businesses or used to repurchase shares.

Our business model is well positioned to benefit from a number of long-term secular trends. These include:

- growth of worldwide financial assets,
- globalization of investment activity,
- structural market changes, and
- increased outsourcing.

These trends benefit us by driving higher levels of financial asset trading volume and other transactional activity, as well as higher asset price levels and growth in client assets, all factors by which we price our services. In addition, international markets offer excellent growth opportunities.

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 5 of Notes to Consolidated Financial Statements.

Second quarter 2007 highlights

We reported second quarter net income of $445 million and diluted earnings per share of 62 cents, and income from continuing operations of $448 million and diluted earnings per share of 62 cents. This compares to net income of $448 million, or 62 cents of diluted earnings per share, and income from continuing operations of $391 million, or 54 cents of diluted earnings per share, in the second quarter of 2006. The second quarter of 2007 included merger and integration expenses ($47 million) that amounted to approximately four cents per share. Excluding this amount, diluted earnings per share from continuing operations in the second quarter of 2007 was 66 cents per share.

Year-to-date net income was $879 million, or $1.22 of diluted earnings per share, compared to $870 million, or $1.20 of diluted earnings per share for the same period in 2006. Year-to-date income from continuing operations was $885 million, or $1.23 of diluted earnings per share compared with $751 million, or $1.03 of diluted earnings per share in 2006.

Performance highlights for the quarter include:

- Asset servicing revenue grew 17% over the second quarter of 2006, a record quarterly level reflecting increased transaction volumes and organic growth across all business products;

- Issuer services results were strong on a sequential quarter basis reflecting seasonal factors;

- Asset and wealth management fees were up 25% over the second quarter of 2006 reflecting organic growth;

- Performance fees were up driven by Ivy Asset Management (Ivy) and Alcentra;

- Good expense discipline drove positive operating leverage (excluding merger and integration expense); and

- Asset quality remained excellent.

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 the second quarter of 2007, we continued our strong momentum in asset management and securities servicing. The results in these businesses demonstrate our success in maintaining focus on our clients while successfully closing the merger with Mellon. We are now executing the disciplined, thoughtful integration plan that will support our goals for new business development and merger synergies.

Fee and other revenue

Fee and other revenue				2Q07 vs.	2Q07 vs.	Year-to-date		YTD07 vs.
(in millions unless otherwise noted)	**2Q07**	1Q07	2Q06	1Q07	2Q06	**2007**	2006	YTD06
Securities servicing fees:								
Asset servicing	**$ 427**	$ 393	$ 365	9%	17%	**$ 820**	$ 700	17%
Issuer services	**367**	319	207	15	77	**686**	361	90
Clearing and execution services	**291**	282	337	3	(14)	**573**	679	(16)
Total securities servicing fees	**1,085**	994	909	9	19	**2,079**	1,740	19
Asset and wealth management fees	**168**	151	134	11	25	**319**	260	23
Performance fees	**21**	14	7	50	200	**35**	14	150
Foreign exchange and other trading activities	**117**	127	128	(8)	(9)	**244**	239	2
Financing-related fees	**61**	52	64	17	(5)	**113**	127	(11)
Treasury services	**55**	50	52	10	6	**105**	103	2
Distribution and servicing	**2**	2	1		100	**4**	2	100
Investment income	**39**	36	38	8	3	**75**	74	1
Securities gains (losses)	**(2)**	2	3	N/M	N/M		(1)	N/M
Other [(a)]	**34**	47	34	(28)		**81**	77	5
Total fee and other revenue	**$ 1,580**	$ 1,475	$ 1,370	7%	15%	**$ 3,055**	$ 2,635	16%
Fee and other revenue as a percentage of total revenue (FTE)	**78%**	77%	79%	1%	(1)%	**78%**	79%	(1)%
Market value of assets under management at period-end *(in billions)*	**$ 153**	$ 142	$ 127	8%	20%	**$ 153**	$ 127	20%
Market value of assets under custody or administration at period-end *(in trillions)*	**$ 14.9**	$ 13.8	$ 12.0	8%	24%	**$ 14.9**	$ 12.0	24%

(a) Includes net economic value payments of $13 million and $25 million for the second and first quarters of 2007 and $38 million for the six months ended June 30, 2007.

N/M - Not meaningful.

Fee and other revenue

The results of many of our businesses are influenced by client activities that vary by quarter. For instance, we experience seasonal increases in securities lending and depositary receipts reflecting European dividend distribution during the second quarter of the year, and to a lesser extent, in the fourth quarter of the year. Also, consistent with an overall decline in securities industry activity in the summer, we typically experience a seasonal decline in the third quarter.

The increase in fee and other revenue versus the year-ago quarter primarily reflects growth in securities servicing, asset and wealth management

Table of Contents

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

and performance fees. The first and second quarters of 2007 reflect our new business mix including higher revenue from the Acquired Corporate Trust Business partially offset by the BNY ConvergEx transaction. The sequential-quarter increase in fee and other revenue primarily reflects growth in securities servicing fees, asset and wealth management fees, performance fees and financing-related fees.

Securities servicing fees

Securities servicing fees increased over the second quarter of 2006 reflecting strong growth in asset servicing and issuer services, partially offset by a decrease in clearing and execution services fees. Securities servicing fees were up sequentially reflecting growth in issuer services, asset servicing and clearing and execution services. See Institutional Services Segment in Business Segments for additional details.

Asset and wealth management fees

Asset and wealth management fees increased from the second quarter of 2006 primarily due to strong performance in alternative investments, the introduction of a new fund at Urdang, as well as solid performance at Alcentra driven by new product introductions. Total assets under management for asset and wealth management were $153 billion at June 30, 2007, up from $127 billion at June 30, 2006 and $142 billion at March 31, 2007.

Performance fees

Performance fees were up from a year-ago quarter and sequential quarter reflecting organic growth and strong results at our alternative asset management subsidiaries, Ivy, Alcentra and Urdang.

Foreign exchange and other trading activities

Foreign exchange and other trading activities declined by $11 million, or 9%, to $117 million, and decreased 8% (unannualized) compared with the first quarter of 2007. The decline compared to both the second quarter of 2006 and first quarter of 2007 was due to lower other trading revenue reflecting the recognition of hedging costs associated with synthetic fuel tax credit investments and losses on swaps that no longer qualify as hedges. Foreign exchange results were down from the second quarter of 2006 reflecting lower market volatility. Foreign exchange revenue increased on a sequential quarter basis consistent with higher market volatility and volumes.

Financing-related fees

Financing-related fees decreased from a year-ago quarter reflecting a lower level of credit-related activities consistent with our strategic direction. Finance-related fees include capital markets and investment banking fees, loan commitment fees and credit-related trade fees. On a sequential quarter basis, financing-related fees increased reflecting higher underwriting fees.

Treasury services

Treasury services fees increased from the first quarter of 2007 and second quarter of 2006 reflecting higher client volume and net new business in the global payment business. Treasury services includes fees related to funds transfer, cash management, and liquidity management.

Investment income

Investment income in the quarter reflected continued strong returns on investments in the sponsor fund portfolio. Venture capital income was $18 million in the second quarter of 2007, up from $17 million in the first quarter of 2007 and down from $23 million in the second quarter of 2006. On a year-to-date basis, venture capital income was $36 million, down from $46 million a year ago. Investment income includes the gains and losses on private equity investments, income from insurance contracts, and lease residual gains and losses.

Securities gains (losses)

The $2 million securities loss for the quarter reflects a loss on the call of $117 million of Philippine Bonds.

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)

Other revenue

Other revenue is comprised of asset-related gains, equity investment income, net economic value payments, and other transactions. Asset-related gains include loan and real estate dispositions. Equity investment income primarily reflects our proportionate share of the income from our investment in Wing Hang Bank Limited. Other transactions primarily includes low income housing, other investments and various miscellaneous revenues. The breakdown among these four categories is shown in the following table:

Other revenue	Quarter ended			Six months ended	
(in millions)	**June 30, 2007**	March 31, 2007	June 30, 2006	**June 30, 2007**	June 30, 2006
Asset-related gains	**$ 5**	$ 4	$ 18	**$ 9**	$ 52
Equity investment income	**12**	13	14	**25**	25
Net economic value payments	**13**	25		**38**	
Other	**4**	5	2	**9**	
Other revenue	**$ 34**	$ 47	$ 34	**$ 81**	$ 77

Other revenue decreased sequentially reflecting lower net economic value payments. The second quarter and first quarter of 2007 included $13 million and $25 million, respectively, of net economic value payments primarily for European, Middle Eastern and Asian Corporate Trust deposits that did not transfer to our balance sheet until May 21, 2007.

Year-to-date 2007 compared with year-to-date 2006

Fee and other revenue for the first six months of 2007 increased $420 million, or 16%, compared with the first six months of 2006. This increase primarily reflects the Acquired Corporate Trust Business, higher asset servicing revenue driven by custody, fund services, and broker dealer services, as well as higher wealth management fees reflecting organic growth, partially offset by the BNY ConvergEx transaction.

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)

Net interest revenue

Net interest revenue

(dollar amounts in millions)	**2Q07**	1Q07	2Q06	2Q07 vs. 1Q07	2Q07 vs. 2Q06	**Year-to-date 2007**	Year-to-date 2006	YTD07 vs. YTD06
Net interest revenue	**$ 452**	$ 427	$ 358	6%	26%	**$ 879**	$ 697	26%
Tax equivalent adjustment [(a)]	**2**	2	7	N/M	N/M	**4**	14	N/M
Net interest revenue (FTE)	**$ 454**	$ 429	$ 365	6%	24%	**$ 883**	$ 711	24%
Net interest margin	**2.01%**	2.18%	1.95%	(17)bp	6bp	**2.10%**	1.95%	**15** bp

(a) Selected items included in net interest revenue have been adjusted to a fully tax equivalent (FTE) basis. To calculate the tax equivalent revenues and profit or loss, we adjust tax-exempt revenues and the income or loss from such tax-exempt revenues to show these items as if they were taxable, applying an assumed tax rate of 35%. We believe that this presentation provides comparability of net interest revenue arising from both taxable and tax-exempt sources and is consistent with industry standards.

N/M - Not meaningful.

bp - basis points.

Net interest revenue on an FTE basis totaled $454 million in the second quarter of 2007, an increase of $89 million from the second quarter of 2006 and $25 million from the first quarter of 2007. Net interest margin was 2.01% in the second quarter of 2007, compared with 1.95% in the second quarter of 2006 and 2.18% in the first quarter of 2007.

The majority of the increase in net interest revenue from both prior periods reflects new business and higher client volumes. In addition, net interest revenue, in the second quarter of 2007, benefited by approximately $11 million from the May 21, 2007 conversion of the European operations of the Acquired Corporate Trust Business, which added approximately $10 billion in non-U.S. deposits. We received net economic value payments on these deposits, which are recorded in Other Revenue, of $13 million for the second quarter of 2007 and $25 million for the first quarter of 2007. On a pro forma basis, including these deposits for the full quarter and the associated net economic value payments, the net interest margin would have been approximately 1.95%.

For the six months ended June 30, 2007, net interest revenue on an FTE basis was $883 million compared with $711 million in 2006, while the net interest margin was 2.10% in the first half of 2007 and 1.95% in the first half of 2006. The increase in the first six months of 2007 compared with the first six months of 2006 resulted from the factors mentioned above, as well as higher deposit balances associated with the Acquired Corporate Trust Business.

Table of Contents

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

Noninterest expense

Noninterest expense				2Q07 vs.	2Q07 vs.	Year-to-date		YTD07 vs.
(in millions)	**2Q07**	1Q07	2Q06	1Q07	2Q06	**2007**	2006	YTD06
Staff:								
Compensation	**$ 472**	$ 459	$ 394	3%	20%	**$ 931**	$ 779	20%
Incentives	**171**	147	162	16	6	**318**	281	13
Employee benefits	**109**	114	100	(4)	9	**223**	200	12
Total staff	**752**	720	656	4	15	**1,472**	1,260	17
Professional, legal and other purchased services	**132**	130	85	2	55	**262**	167	57
Distribution and servicing	**4**	4	4			**8**	8	
Net occupancy	**81**	79	68	3	19	**160**	136	18
Furniture and equipment	**54**	50	48	8	13	**104**	99	5
Software	**57**	54	53	6	8	**111**	108	3
Business development	**37**	30	28	23	32	**67**	51	31
Sub-custodian expenses	**42**	34	36	24	17	**76**	70	9
Clearing and execution	**44**	37	59	19	(25)	**81**	109	(26)
Communications	**23**	19	22	21	5	**42**	48	(13)
Other	**87**	72	64	21	36	**159**	123	29
Subtotal	**1,313**	1,229	1,123	7	17	**2,542**	2,179	17
Amortization of intangible assets	**29**	28	15	4	93	**57**	28	N/M
Merger and integration expense:								
The Bank of New York Mellon	**35**	4		N/M	N/M	**39**		N/M
Acquired Corporate Trust Business	**12**	11		N/M	N/M	**23**		N/M
Total noninterest expense	**$ 1,389**	$ 1,272	$ 1,138	9%	22%	**$ 2,661**	$ 2,207	21%
Total staff expense as a percentage of total revenue (FTE)	**37%**	38%	38%			**37%**	38%	
Employees at period-end	**23,200**	23,100	20,000	%	16%	**23,200**	20,000	16%

N/M - Not meaningful.

Noninterest expense was up compared with the second quarter of 2006 and first quarter of 2007. The purchase of the Acquired Corporate Trust Business and the remaining 50% of the AIB/BNY Securities Servicing (Ireland) Ltd. (AIB/BNY) joint venture, along with the disposition of certain execution businesses in the BNY ConvergEx transaction, significantly impacted comparisons of the second quarter of 2007 to the second quarter of 2006. The net impact of these transactions was to increase staff expense, net occupancy, business development, professional, legal and other purchased services, amortization of intangibles, and other expense. The BNY ConvergEx transaction also resulted in lower clearing expenses. The sequential-quarter increase reflects higher salaries, incentive compensation, as well as merger and integration expenses related to the merger transaction with Mellon.

Staff expense

Given the company s mix of fee-based businesses, which are staffed primarily with high quality professionals, staff expense comprised approximately 54% of total noninterest expense in the second quarter of 2007.

Staff expense is comprised of:

compensation expense, which includes;

- base salary expense, primarily driven by headcount;
- the cost of temporary help and overtime; and
- severance expense;

Table of Contents

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