Bank of New York Mellon CORP
Form 10-Q
May 09, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2008

or

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

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-52710

THE BANK OF NEW YORK MELLON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	13-2614959
(State or other jurisdiction of	*(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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Yes __ No ü

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

Class	Outstanding as of March 31, 2008
Common Stock, $0.01 par value	1,143,817,682

Table of Contents

THE BANK OF NEW YORK MELLON CORPORATION

FIRST QUARTER 2008 FORM 10-Q

TABLE OF CONTENTS

Table of Contents

Introduction

On July 1, 2007, The Bank of New York Company, Inc. (The Bank of New York) and Mellon Financial Corporation (Mellon) 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. For accounting and financial reporting purposes, the merger was accounted for as a purchase of Mellon. 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 ..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 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 54 for additional information.

We expect to realize annual merger-related expense synergies of $700 million by 2010 and our targeted run rate for merger-related revenue synergies is $250-400 million by 2011. Merger and integration expenses to combine the operations of The Bank of New York and Mellon were approximately $121 million in the first quarter of 2008. Total merger and integration expenses are currently expected to be approximately $1.325 billion.

The Bank of New York Mellon is 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 and execution services and treasury services through a worldwide client-focused team. We have more than $23 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.

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

Table of Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS (unaudited)

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

	Quarter ended		
(dollar amounts in millions, except per share amounts and unless otherwise noted)	**March 31, 2008**	Dec. 31, 2007	March 31, 2007 [a]
Reported results:			
Net income	**$ 746**	$ 520	$ 434
Basic EPS [b]	**0.66**	0.46	0.61
Diluted EPS [b]	**0.65**	0.45	0.60
Continuing operations:			
Fee and other revenue	**$ 2,978**	$ 3,044	$ 1,475
Net interest revenue	**767**	752	427
Total revenue	**$ 3,745**	$ 3,796	$ 1,902
Income from continuing operations	**$ 749**	$ 700	$ 437
EPS from continuing operations [b]:			
Basic	**$ 0.66**	$ 0.62	$ 0.61
Diluted	**0.65**	0.61	0.61
Diluted excluding merger and integration expense [c]	**0.72**	0.67	0.62
Diluted excluding merger and integration and intangible amortization expenses [c]	**0.78**	0.74	0.65
Return on tangible common equity *(annualized)*	**49.11%**	44.96% [d]	39.20%
Return on tangible common equity excluding merger and integration and intangible amortization expenses *(annualized)*	**53.60%**	48.93% [d]	40.09%
Return on common equity *(annualized)*	**10.20%**	9.53% [d]	15.70%
Return on common equity excluding merger and integration and intangible amortization expenses *(annualized)*	**12.24%**	11.54% [d]	16.75%
Fee and other revenue as a percentage of total revenue (FTE)	**79%**	80%	77%
Annualized fee and other revenue per employee *(in thousands)* (based on average headcount)	**$ 281**	$ 291	$ 263
Non-U.S. percent of revenue (FTE)	**33%**	32% [e]	30%
Pre-tax operating margin (FTE)	**30%**	27%	34%
Pre-tax operating margin (FTE) excluding merger and integration and intangible amortization expenses [c]	**36%**	34%	36%
Net interest margin (FTE)	**2.14%**	2.16%	2.18%
Net interest revenue (FTE)	**$ 773**	$ 757	$ 429
Assets under management *(in billions)*	**$ 1,105**	$ 1,121	$ 142
Assets under custody and administration *(in trillions)*	**$ 23.1**	$ 23.1	$ 15.9 [f]
Equity securities	**30%**	32%	32%
Fixed income securities	**70%**	68%	68%
Cross-border assets *(in trillions)*	**$ 10.0**	$ 10.0	$ 6.7 [f]
Market value of securities on loan *(in billions)*	**$ 676**	$ 633	$ 397
Average common shares and equivalents outstanding *(in thousands)* [b]:			
Basic	**1,134,280**	1,133,804	710,147
Diluted	**1,147,906**	1,148,176	719,976

Capital ratios

Tier I capital ratio	**8.76%**	9.32%	8.43%
Total (Tier I plus Tier II ratio)	**12.14%**	13.25%	12.81%
Adjusted tangible shareholders equity to assets ratio (g)	**4.14%**	4.96%	5.47%
Return on average assets *(annualized)*	**1.50%**	1.44% (d)	1.73%

Table of Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS (unaudited) (continued)

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

(dollar amounts in millions, except per share amounts and unless otherwise noted)	Quarter ended **March 31, 2008**	Dec. 31, 2007	March 31, 2007 [(a)]
Selected average balances:			
Interest-earning assets	**$ 145,118**	$ 140,622	$ 79,075
Total assets	**$ 200,790**	$ 192,987	$ 102,041
Interest-bearing deposits	**$ 92,881**	$ 86,278	$ 43,862
Noninterest-bearing deposits	**$ 26,240**	$ 28,449	$ 14,903
Shareholders equity	**$ 29,551**	$ 29,136	$ 11,277
Other:			
Employees	**42,600**	42,500	23,100
Dividends per share [(b)]	**$ 0.24**	$ 0.24	$ 0.23
Dividend yield *(annualized)*	**2.3%**	2.0%	2.1%
Closing common stock price per share [(b)]	**$ 41.73**	$ 48.76	$ 42.98
Market capitalization	**$ 47,732**	$ 55,878	$ 30,750
Book value per common share [(b)]	**$ 24.89**	$ 25.66	$ 16.11
Tangible book value per common share [(b)]	**$ 4.84**	$ 5.82	$ 6.92
Period-end shares outstanding *(in thousands)* [(b)]	**1,143,818**	1,145,983	715,403

(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 54 for additional information.

(c) Calculated excluding pre-tax merger and integration expenses $126 million, $124 million and $15 million and pre-tax intangible amortization expense of $122 million, $131 million and $28 million.

(d) Before the extraordinary loss resulting from the consolidation of Three Rivers Funding Corporation.

(e) Calculated excluding the $200 million CDO write-down in the fourth quarter of 2007.

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

(g) Includes deferred tax liabilities of $1.986 billion, $2.006 billion and $154 million.

Table of Contents

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

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

Certain business terms used in this document are defined in the glossary included in our 2007 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 manage and service 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: 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. One of our two principal subsidiaries, The Bank of New York (the Bank), founded in 1784, is the oldest bank in the United States. Our other principal subsidiary, Mellon Bank, N.A. (Mellon Bank) was founded in 1869. Both institutions have consistently played a prominent role in the evolution of financial markets worldwide.

BNY Mellon 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 pre-tax margins.

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

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

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

We have established a Tier I capital target of 8% as our principal capital measure. We have also established a secondary target capital ratio of 5% for adjusted tangible common equity. The adjusted tangible common equity ratio reflects the impact of the merger with Mellon 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 a discussion of our capital ratios, see pages 48-50.

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

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

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 first quarter of 2008 and fourth quarter of 2007 reflect the results of The Bank of New York Mellon combined. Results for the first quarter of 2007 include legacy The Bank of New York only.

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

First quarter 2008 highlights

We reported first quarter net income of $746 million, or $0.65 per share, and income from continuing operations of $749 million, or $0.65 per share. This compares to net income of $434 million, or $0.60 per share, and income from continuing operations of $437 million, or $0.61 per share, in the first quarter of 2007. The first quarter of 2008 included merger and integration expenses of $126 million (pre-tax), or $0.07 per share. The first quarter of 2007 included merger and integration expenses of $15 million (pre-tax) or $0.01 per share. Excluding these amounts, earnings per share from continuing operations were $0.72 in the first quarter of 2008 and $0.62 in the first quarter of 2007.

Adjusting for the impact of merger and integration expenses ($126 million pre-tax) and intangible amortization ($122 million pre-tax), diluted earnings per share for the first quarter of 2008 were $0.78, which compares to $0.65 a year ago (an increase of 20%) and $0.74 sequentially (an annualized increase

of 5%). See the table on page 55 for a reconciliation of GAAP to non-GAAP net income and earnings per share.

The results for the first quarter of 2008 included net pre-tax costs associated with the write down of certain investments in the securities portfolio ($74 million), the write-down of seed capital investments related to a formerly affiliated hedge fund manager ($25 million), and an expense associated with capital support agreements ($12 million). The results for the first quarter also included the pre-tax benefit of $42 million associated with the initial public offering by VISA. The net impact of these items decreased earnings per share by approximately $0.04.

Performance highlights for the first quarter of 2008 included:

- Assets under management totaled $1.105 trillion at March 31, 2008 compared with $142 billion at March 31, 2007. Assets under custody and administration totaled $23.1 trillion at March 31, 2008 compared with $15.9 trillion at March 31, 2007. Both increases primarily resulted from the merger with Mellon;
- Asset and wealth management fees totaled $842 million in the first quarter of 2008 compared with $151 million in the first quarter of 2007. The increase reflects the merger with Mellon as well as the benefit of strong money market flows and other new business, partially offset by the prior loss of business at one of our investment boutiques and lower equity market values;
- Asset servicing revenue was $897 million in the first quarter of 2008 compared with $393 million in the first quarter of 2007. The increase was primarily due to the merger with Mellon, the benefit of market volatility, strong new business activity and the fourth quarter of 2007 acquisition of the remaining 50% interest in BNY Mellon Asset Servicing B.V., the former joint venture with ABN AMRO;

- Issuer services revenue was $376 million in the first quarter of 2008 compared with $319 million in the first quarter of 2007. The increase primarily reflects the merger with Mellon as well as higher global corporate trust fees;

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)

- Revenue from foreign exchange and other trading activities was $259 million in the first quarter of 2008 compared with $127 million in the first quarter of 2007. The increase reflects the merger with Mellon, the benefit of increased client volumes and currency volatility;
- Securities losses totaled $73 million in the first quarter of 2008 compared to a gain of $2 million in the first quarter of 2007. The first quarter of 2008 includes a $28 million loss related to securities backed by home equity lines of credit in the portfolio of Three Rivers Funding Corporation (TRFC), a $24 million loss related to asset-backed securities (ABS) collateralized debt obligations (CDOs) and $22 million related to structured investment vehicles (SIVs);
- Net interest revenue was $767 million in the first quarter of 2008 compared with $427 million in the first quarter of 2007. The increase was primarily due to the merger with Mellon as well as a higher level of interest-earning assets associated primarily with the growth in Securities Servicing and wider spreads on investment securities, partially offset by the lower value of noninterest-bearing deposits in a declining interest rate environment; and
- Noninterest expense was $2.619 billion in the first quarter of 2008 compared with $1.272 billion in the first quarter of 2007. The increase resulted from the merger with Mellon and in support of business growth as well as increases in merger and integration expense of $111 million and intangible amortization expense of $94 million, partially offset by $118 million of merger-related synergies generated in the first quarter of 2008.

Revenue overview

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

Fee and other revenue represented 79% of total revenue, on an FTE basis in the first quarter of 2008, compared with 77% in the first quarter of 2007.

Since fee and other revenue constitutes 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 first quarter of 2008 compared with the first 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 BNY Mellon 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 21% of total revenue, on an FTE basis, in the first quarter of 2008 compared with 23% the first 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 net interest revenue section.

Table of Contents

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

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

Sector/segment overview

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

Working capital solutions

- Financing-related fees

Other segment

- Leasing operations
- Corporate treasury activities
- Business exits
- Global markets and institutional banking services
- Merger and integration expenses

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)

Fee and other revenue

Fee and other revenue *(dollars in millions unless otherwise noted)*	**1Q08**	4Q07	1Q07 (a)	**1Q08 vs. 4Q07**	**1Q08 vs. 1Q07**
Securities servicing fees:					
Asset servicing	**$ 897**	$ 809	$ 393	**11%**	**128%**
Issuer services	**376**	438	319	**(14)**	**18**
Clearing and execution services	**267**	314	282	**(15)**	**(5)**
Total securities servicing fees	**1,540**	1,561	994	**(1)**	**55**
Asset and wealth management fees	**842**	887	151	**(5)**	**458**
Performance fees	**20**	62	14	**(68)**	**43**
Foreign exchange and other trading activities	**259**	305	127	**(15)**	**104**
Treasury services	**124**	121	50	**2**	**148**
Distribution and servicing	**98**	113	2	**(13)**	**N/M**
Financing-related fees	**48**	52	52	**(8)**	**(8)**
Investment income	**23**	52	36	**(56)**	**(36)**
Securities gains (losses)	**(73)**	(191)	2	**N/M**	**N/M**
Other	**97**	82	47	**18**	**106**
Total fee and other revenue	**$ 2,978**	$ 3,044	$ 1,475	**(2)%**	**102%**
Fee and other revenue as a percentage of total revenue (FTE)	**79%**	80%	77%		
Market value of assets under management at period-end *(in billions)*	**$ 1,105**	$ 1,121	$ 142	**(1)%**	**678%**
Market value of assets under custody and administration at period-end *(in trillions)*	**$ 23.1**	$ 23.1	$ 15.9 (b)	**-%**	**45%**

(a) Legacy The Bank of New York only.

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

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 and depositary receipts reflecting European dividend distributions during the second quarter of the year, and to a lesser extent, in the fourth quarter of the year. Performance fees tend to be seasonally highest in the fourth quarter when the measurement period for many products ends.

The increase in fee and other revenue versus the year-ago quarter primarily reflects the merger with Mellon, higher securities servicing fees and foreign exchange and other trading activities. The first quarter 2008 also includes, in other fee revenue, a $42 million gain associated with the initial public offering by VISA. The sequential-quarter decrease in fee and other revenue primarily reflects seasonal declines in the Depositary Receipts business and performance fees, the sale of the B-Trade and G-Trade execution businesses in Clearing and execution services, lower foreign exchange and other trading activities revenue, and lower investment

income, partially offset by higher asset servicing fees.

Securities servicing fees

The increase in securities servicing fees over the first quarter of 2007 reflects the merger with Mellon and strong securities lending revenue. Securities servicing fees were down sequentially reflecting lower issuer services fees reflecting a seasonal decline in the Depositary Receipts business, and lower clearing and execution service fees due to the first quarter 2008 sale of the B-Trade and G-Trade execution businesses. These decreases were partially offset by higher securities lending revenue. See the Institutional Services Sector in Business segments review for additional details.

Asset and wealth management fees

Asset and wealth management fees increased from the first quarter of 2007 primarily due to the merger with Mellon as well as strong money market flows and other new business, partially offset by the prior loss of business at one of our investment boutiques, as well as lower equity market values. The decrease

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)

compared to the fourth quarter of 2007 primarily resulted from a combination of lower equity market values and negative long-term flows. 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 $1.105 trillion at March 31, 2008, compared with $142 billion at March 31, 2007 and $1.121 trillion at Dec. 31, 2007. The increase compared with March 31, 2007 resulted from the merger with Mellon, new business and strong money market inflows. The decrease compared with Dec. 31, 2007 primarily resulted from lower equity market values primarily offset by strong money market inflows.

A significant portion 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 revenue was $323 million compared with $3 million in the first quarter of 2007. The increase resulted from the merger with Mellon and strong money market inflows.

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 increased $6 million compared with the first quarter of 2007 and decreased $42 million compared with the fourth quarter of 2007. The increase compared with the first quarter of 2007 reflects the merger with Mellon, partially offset by a lower level of performance fees generated from alternative and other quantitative products. The sequential quarter decrease principally reflects a typical seasonal decline.

Foreign exchange and other trading activities

Foreign exchange and other trading activities revenue, which is reported primarily in the Asset Servicing segment, increased by $132 million, or 104%, to $259 million compared with the first

quarter of 2007, and decreased 15% (unannualized) compared with the fourth quarter of 2007. The increase compared to the first quarter of 2007 was due to the merger with Mellon and also reflected the benefit of significant increases in currency volatility as well as higher client volumes. The decrease compared with the fourth quarter of 2007 primarily reflects a lower valuation of the credit derivatives portfolio and the impact of the adoption of SFAS 157 on the valuation of the interest rate derivatives portfolio.

Treasury services

Treasury services, which is primarily reported in the Treasury Services segment, includes fees related to funds transfer, cash management and liquidity management. Treasury services fees increased $74 million from the first quarter of 2007 reflecting the merger with Mellon as well as higher global payment and cash management fees due primarily to higher client volumes.

Distribution and servicing fees

Distribution and servicing fees earned from mutual funds are primarily based on average assets in the funds and the sales of funds managed or administered by BNY Mellon 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.

The $96 million increase in distribution and servicing fee revenue in the first quarter of 2008 compared with the first quarter of 2007 primarily reflects the merger with Mellon. The $15 million decrease compared with the fourth quarter of 2007 reflects higher redemption fees received in the fourth quarter of 2007. 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.

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)

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 $4 million from both a year-ago quarter and sequentially reflecting 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 decreases in investment income from the first quarter of 2007 and the fourth quarter of 2007 primarily resulted from seed capital investment losses of $19 million in the first quarter of 2008 as well as lower private equity investment revenue. The first quarter of 2008 excludes the $25 million loss on seed capital investments related to a formerly affiliated hedge fund manager, which was recognized in other expense. Private equity investment income was $7 million in the first quarter of 2008, down from $14 million in the fourth quarter of 2007 and $17 million in the first quarter of 2007.

Securities gains (losses)

Securities losses totaled $73 million in the first quarter of 2008 compared to a gain of $2 million in the first quarter of 2007 and a loss of $191 million in the fourth quarter of 2007. The losses in the first quarter of 2008 primarily reflected $24 million related to ABS CDOs, $22 million related to SIVs and $28 million related to securities backed by home equity lines of credit in the TRFC portfolio. The loss in the fourth quarter of 2007 included a $200 million CDO write-down. See Consolidated balance sheet review for further information on the investment securities portfolio.

Other revenue

Other revenue is comprised of expense reimbursements from joint ventures, merchant card fees, asset-related gains, equity investment income, net economic value payments and other transactions. Expense reimbursements from joint ventures relate to expenses incurred by BNY Mellon on behalf of joint ventures. 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. Other transactions primarily include low income housing, other investments and various miscellaneous revenues. The breakdown among these categories is shown in the following table:

Other revenue	Quarter ended		
(in millions)	**March 31, 2008**	Dec. 31, 2007	March 31, 2007 [(a)]
Asset-related gains	**$46**	$ 5	$ 4
Equity investment income	**12**	18	13
Merchant card fees	**6**	10	-
Expense reimbursements from joint ventures	**4**	27	-
Net economic value payments	**2**	1	24
Other	**27**	21	6
Total other revenue	**$97**	$82	$47

(a) Legacy The Bank of New York only.

Other revenue increased compared to the first quarter of 2007 reflecting the merger with Mellon, partially offset by lower net economic value payments. The first quarter of 2008 included the $42 million gain associated with the initial public offering by VISA.

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)*	**1Q08**	4Q07	1Q07 [(a)]	**1Q08 vs. 4Q07**	**1Q08 vs. 1Q07**
Net interest revenue	**$ 767**	$ 752	$ 427	**2%**	**80%**
Tax equivalent adjustment	**6**	5	2	**N/M**	**N/M**
Net interest revenue on an FTE basis	**$ 773**	$ 757	$ 429	**2%**	**80%**
Net interest margin (FTE)	**2.14%**	2.16%	2.18%	**(2) bps**	**(4) bps**

(a) Legacy The Bank of New York only.
bps - basis points.

Net interest revenue on an FTE basis totaled $773 million in the first quarter of 2008, compared with $429 million in the first quarter of 2007 and $757 million in the fourth quarter of 2007. The net interest margin was 2.14% in the first quarter of 2008, compared with 2.18% in the first quarter of 2007 and 2.16% in the fourth quarter of 2007.

The increase in net interest revenue compared with both the first quarter and fourth quarter of 2007 reflects a higher level of average interest-earning assets associated primarily with the growth in Securities Servicing and wider spreads on investment securities, partially offset by a lower value of noninterest-bearing deposits in a declining interest rate environment. Additionally, the increase in net interest revenue compared with the first quarter of 2007 was impacted by the merger with Mellon.

Average interest-earning assets were $145.1 billion in the first quarter of 2008 compared with $140.6 billion sequentially and $79.1 billion in the first quarter of 2007. The increase in interest-earning assets compared with the first quarter of 2007 reflects the merger with Mellon as well as the impact of a higher level of interest and noninterest-bearing deposits driven by higher client activity across all businesses.

The net interest margin decreased 4 bps year-over-year and 2 bps sequentially. Both decreases principally reflect the lower value of noninterest-bearing deposits in a declining interest rate environment. The sequential quarter decrease also reflects a lower level of noninterest-bearing deposits given a fourth quarter increase related to corporate actions in Shareowner Services.

Table of Contents

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

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

AVERAGE BALANCES AND INTEREST RATES

	Quarter ended					
	March 31, 2008		Dec. 31, 2007		March 31, 2007[(a)]	
(dollar amounts in millions)	**Average balance**	**Average rates**	Average balance	Average rates	Average balance	Average rates
Assets						
Interest-earning assets:						
Interest-bearing deposits with banks (primarily foreign)	**$ 38,658**	**4.28%**	$ 37,107	4.75%	$ 13,546	4.36%
Federal funds sold and securities under resale agreements	**8,199**	**3.15**	7,096	4.66	4,435	5.23
Margin loans	**5,258**	**4.47**	5,313	5.74	5,401	6.33
Non-margin loans:						
Domestic offices	**29,357**	**4.49**	28,527	4.95	19,231	5.11
Foreign offices	**13,881**	**4.55**	13,269	5.02	11,321	5.85
Total non-margin loans	**43,238**	**4.51**	41,796	4.97	30,552	5.38
Securities						
U.S. government obligations	**430**	**3.48**	502	4.18	86	4.95
U.S. government agency obligations	**11,333**	**4.74**	11,761	5.27	2,905	5.07
Obligations of states and political subdivisions	**703**	**7.58**	724	6.58	86	8.22
Other securities	**35,840**	**5.26**	33,972	5.44	19,311	5.30
Trading securities	**1,459**	**5.36**	2,351	5.35	2,753	4.99
Total securities	**49,765**	**5.16**	49,310	5.40	25,141	5.25
Total interest-earning assets	**145,118**	**4.59**	140,622	5.08	79,075	5.22
Allowance for credit losses	**(311)**		(332)		(286)	
Cash and due from banks	**5,831**		5,663		2,424	
Other assets	**50,152**		47,034		20,828	
Total assets	**$ 200,790**		$ 192,987		$ 102,041	
Liabilities and shareholders equity						
Interest-bearing liabilities:						
Money market rate accounts	**$ 13,296**	**1.63%**	$ 16,190	2.74%	$ 6,169	2.98%
Savings	**913**	**2.33**	802	2.72	416	1.85
Certificates of deposit of $100,000 & over	**2,313**	**4.09**	2,547	5.37	3,133	5.43
Other time deposits	**8,445**	**2.42**	1,374	6.13	584	5.18
Foreign offices	**67,914**	**2.85**	65,365	3.38	33,560	3.67
Total interest-bearing deposits	**92,881**	**2.66**	86,278	3.36	43,862	3.70
Federal funds purchased and securities under repurchase agreements	**4,750**	**2.18**	3,956	3.89	1,527	4.97
Other borrowed funds	**3,343**	**3.50**	3,079	2.41	1,870	2.88
Payables to customers and broker-dealers	**4,942**	**1.94**	5,226	3.12	4,747	3.59
Long-term debt	**17,125**	**4.51**	15,510	5.29	8,888	5.42
Total interest-bearing liabilities	**123,041**	**2.90**	114,049	3.60	60,894	3.95
Total noninterest-bearing deposits	**26,240**		28,449		14,903	
Other liabilities	**21,958**		21,353		14,967	
Total liabilities	**171,239**		163,851		90,764	
Shareholders equity	**29,551**		29,136		11,277	
Total liabilities and shareholders equity	**$ 200,790**		$ 192,987		$ 102,041	

Net interest margin Taxable equivalent basis	**2.14%**	2.16%	2.18%

(a) Legacy The Bank of New York only.

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

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

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

Noninterest expense

Noninterest expense *(dollar amounts in millions)*	**1Q08**	4Q07	1Q07[a]	**1Q08 vs. 4Q07**	**1Q08 vs. 1Q07**
Staff:					
Compensation	**$ 795**	$ 758	$ 459	**5%**	**73%**
Incentives	**366**	443	147	**(17)**	**149**
Employee benefits	**191**	164	114	**16**	**68**
Total staff	**1,352**	1,365	720	**(1)**	**88**
Professional, legal and other purchased services	**252**	272	130	**(7)**	**94**
Distribution and servicing	**130**	133	4	**(2)**	**N/M**
Net occupancy	**129**	145	79	**(11)**	**63**
Furniture and equipment	**79**	82	50	**(4)**	**58**
Software	**79**	78	54	**1**	**46**
Business development	**66**	72	30	**(8)**	**120**
Sub-custodian	**61**	66	34	**(8)**	**79**
Communications	**32**	34	19	**(6)**	**68**
Clearing and execution	**9**	49	37	**(82)**	**(76)**
Other	**182**	198	72	**(8)**	**153**
Subtotal	**2,371**	2,494	1,229	**(5)**	**93**
Amortization of intangible assets	**122**	131	28	**(7)**	**N/M**
Merger and integration expense:					
The Bank of New York Mellon	**121**	111	4	**9**	**N/M**
Acquired Corporate Trust Business	**5**	13	11	**(62)**	**(55)**
Total noninterest expense	**$ 2,619**	$ 2,749	$ 1,272	**(5)%**	**106%**
Total staff expense as a percentage of total revenue (FTE)	**36%**	36%	38%		
Employees at period-end	**42,600**	42,500	23,100	**-%**	**84%**

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

Total noninterest expense increased compared with the first quarter of 2007 and decreased compared with the fourth quarter of 2007. The increase compared with the first quarter of 2007 resulted primarily from the merger with Mellon, as well as the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing B.V., partially offset by the sale of the B-Trade and G-Trade execution businesses to BNY ConvergEx. The sequential quarter decrease reflects the impact of expense synergies and the sale of the B-Trade and G-Trade execution businesses, partially offset by the purchase of the remaining 50% interest in BNY Mellon Asset Servicing B.V. The increase in merger and integration expense and intangible amortization expense compared to the first quarter of 2007 resulted from the merger with Mellon.

Staff expense

Given our mix of fee-based businesses, which are staffed with high quality professionals, staff expense comprised approximately 57% of total noninterest expense, excluding merger and integration and intangible amortization expense, in the first quarter of 2008.

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;
- 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.

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 increase in staff expense compared with the first quarter of 2007 reflects a net increase in headcount associated with the Mellon merger as well as the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing B.V., partially offset by the sale of B-Trade and G-Trade execution businesses.

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 expense and intangible amortization expense, totaled $1.019 billion in the first quarter of 2008 compared with $509 million in the first quarter of 2007. Non-staff expenses were impacted by the merger with Mellon as well as the following activities:

- A $126 million increase in distribution and servicing expense. 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 service 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 increase in professional, legal and other purchased services, sub-custodian, business development, furniture and equipment, software and communications expense reflect business growth and strategic initiatives; and
- The increase in other expense reflects organic business growth, a $25 million write-down of seed capital investments related to a formerly affiliated hedge fund manager and a $12 million expense associated with capital support agreements.

In the first quarter of 2008, we incurred $121 million of merger and integration expenses related to the merger with Mellon, comprised of the following:

- Personnel related includes severance, retention, relocation expenses, accelerated vesting of stock options and restricted stock expense ($34 million);
- Integration/conversion costs including consulting, system conversions and staff ($82 million); and
- One-time costs includes facilities related costs, asset write-offs, vendor contract modifications, rebranding and net gain (loss) on disposals ($5 million).

We also incurred $5 million of merger and integration expense associated with the Acquired Corporate Trust Business in the first quarter of 2008.

Amortization of intangible assets increased to $122 million in the first quarter of 2008 compared with $28 million in the first quarter of 2007, primarily reflecting the merger with Mellon.

Income taxes

On a continuing operations basis, the effective tax rate for the first quarter of 2008 was 32.5%, compared with 32.2% in the first quarter of 2007 and 31.8% in the fourth quarter of 2007. The higher effective tax rate in the first quarter of 2008 compared with the fourth quarter of 2007 reflects higher state and local income taxes.

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)

Credit loss provision and net charge-offs

Credit loss provision and net charge-offs		Quarter ended	
(in millions)	**March 31, 2008**	Dec. 31, 2007	March 31, 2007 [(a)]
Provision for credit losses	**$16**	$20	$(15)
Net charge-offs (recoveries)			
Commercial	**$ 6**	$17	$ 5
Leasing	**-**	-	(8)
Foreign	**5**	18	-
Other	**2**	1	-
Total net charge-off (recoveries)	**$13**	$36	$ (3)

(a) Legacy The Bank of New York only.

The provision for credit losses was $16 million in the first quarter of 2008, compared with $20 million in the fourth quarter of 2007 and a credit of $15 million in the first quarter of 2007. We recorded a net charge-off of $13 million in the first quarter of 2008, compared with a net charge off of $36 million in the fourth quarter of 2007. Net charge-offs in the first quarter of 2008 include $6 million related to a retail trade customer and $5 million related to foreign SIV exposure.

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 Bank of New York Mellon 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.

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 and Execution Services segment
  - Treasury Services segment
- Other segment

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

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

- Revenue amounts reflect fee and other revenue generated by each segment, as well as fee and other revenue transferred between segments under revenue transfer agreements.
- Revenues and expenses associated with specific client bases are included in those segments. For example, foreign exchange activity associated with clients using custody products is allocated to the Asset Servicing segment.
- Balance sheet assets and liabilities and their related income or expense are specifically assigned to each segment. Segments with a

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 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.
- The operations of Mellon are included only from July 1, 2007, the effective date of the merger.

The merger with Mellon in July 2007 had a considerable impact on the business segment results in the first quarter of 2008 compared with the first quarter of 2007. The merger with Mellon significantly impacted Asset Management, Wealth Management and the Asset Servicing segments and,

to a lesser extent, the Issuer Services, Treasury Services and Other segments. The volatile market environment also impacted business segments in the first quarter of 2008 compared with the first quarter of 2007 as reflected by strong securities lending and foreign exchange and other trading activities and weakness in other businesses.

Non-program equity trading volumes were up 6% sequentially and 22% year-over-year. In addition, average daily U.S. fixed-income trading volume was up 16% sequentially and 24% year-over-year. Total debt issuance increased 7% sequentially and decreased 44% year-over-year. The issuance of global collateralized debt obligations was down 94% versus the first quarter of 2007.

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, impacts fee revenue by approximately 1% and fully diluted EPS on a continuing operations basis by $0.05 per share.

Market indices	1Q07	2Q07	3Q07	4Q07	**1Q08**	**1Q08 vs. 4Q07**	**1Q08 vs. 1Q07**
S&P 500 Index *(a)*	1421	1503	1527	1468	**1323**	**(10)%**	**(7)%**
FTSE 100 Index *(a)*	6308	6608	6467	6457	**5702**	**(12)**	**(10)**
NASDAQ Composite Index *(a)*	2422	2603	2702	2652	**2279**	**(14)**	**(6)**
Lehman Brothers Aggregate Bond[sm] Index *(a)*	230.8	227.9	246.2	257.5	**281.2**	**9**	**22**
MSCI EAFE® Index *(a)*	2147.5	2262.2	2300.3	2253.4	**2038.6**	**(10)**	**(5)**
NYSE Volume *(in billions)*	123.8	127.7	145.5	135.0	**158.5**	**17**	**28**
NASDAQ Volume *(in billions)*	131.4	134.0	137.0	137.4	**148.9**	**8**	**13**

(a) Period end.

The consolidating schedules below show the

contribution of our segments to our overall

profitability.

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 March 31, 2008 *(in millions, presented on an FTE basis)*	**Asset Management**	**Wealth Management**	**Total Asset & Wealth Management Sector**	**Asset Servicing**	**Issuer Services**	**Clearing & Execution Services**	**Treasury Services**	**Total Institutional Services Sector**	**Other Segment**	**Total Continuing Operations**
Fee and other revenue	**$ 752**	**$ 169**	**$ 921**	**$ 1,095**	**$ 407**	**$ 319**	**$ 233**	**$ 2,054**	**$ 12**	**$ 2,987**
Net interest revenue	**15**	**95**	**110**	**221**	**153**	**74**	**183**	**631**	**32**	**773**
Total revenue	**767**	**264**	**1,031**	**1,316**	**560**	**393**	**416**	**2,685**	**44**	**3,760**
Provision for credit losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16**	**16**
Noninterest expense	**624**	**187**	**811**	**752**	**337**	**280**	**212**	**1,581**	**227**	**2,619**
Income before taxes	**$ 143**	**$ 77**	**$ 220**	**$ 564**	**$ 223**	**$ 113**	**$ 204**	**$ 1,104**	**$ (199)**	**$ 1,125**
Pre-tax operating margin *(a)*	**19%**	**29%**	**21%**	**43%**	**40%**	**29%**	**49%**	**41%**	**N/M**	**30%**
Average assets	**$ 12,919**	**$ 16,627**	**$ 29,546**	**$ 53,123**	**$ 32,182**	**$ 16,574**	**$ 23,615**	**$ 125,494**	**$ 45,750**	**$ 200,790**
Excluding intangible amortization:										
Noninterest expense	**$ 562**	**$ 167**	**$ 729**	**$ 745**	**$ 317**	**$ 274**	**$ 205**	**$ 1,541**	**$ 227**	**$ 2,497**
Income before taxes	**205**	**97**	**302**	**571**	**243**	**119**	**211**	**1,144**	**(199)**	**1,247**
Pre-tax operating margin *(a)*	**27%**	**37%**	**29%**	**43%**	**43%**	**30%**	**51%**	**43%**	**N/M**	**33%**

For the quarter ended Dec. 31, 2007 *(in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations
Fee and other revenue	$ 888	$ 170	$ 1,058	$ 1,027	$ 457	$ 357	$ 249	$ 2,090	$ (93)	$ 3,055
Net interest revenue	17	86	103	224	175	78	162	639	15	757
Total revenue	905	256	1,161	1,251	632	435	411	2,729	(78)	3,812
Provision for credit losses	-	-	-	-	-	-	-	-	20	20
Noninterest expense	629	187	816	813	345	311	208	1,677	256	2,749
Income before taxes	$ 276	$ 69	$ 345	$ 438	$ 287	$ 124	$ 203	$ 1,052	$ (354)	$ 1,043
Pre-tax operating margin *(a)*	30%	27%	30%	35%	45%	29%	49%	39%	N/M	27%
Average assets	$ 13,079	$ 15,849	$ 28,928	$ 48,353	$ 32,708	$ 16,698	$ 21,803	$ 119,562	$ 44,497	$ 192,987
Excluding intangible amortization:										
Noninterest expense	$ 559	$ 166	$ 725	$ 807	$ 324	$ 305	$ 201	$ 1,637	$ 256	$ 2,618
Income before taxes	346	90	436	444	308	130	210	1,092	(354)	1,174
Pre-tax operating margin *(a)*	38%	35%	38%	35%	49%	30%	51%	40%	N/M	31%

For the quarter ended Sept. 30, 2007 *(in millions,*	Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations

presented on

an FTE basis)

Fee and other revenue	$ 745	$ 161	$ 906	$ 906	$ 460	$ 372	$ 222	$ 1,960	$ 74	$ 2,940
Net interest revenue	(4)	85	81	195	159	77	140	571	22	674
Total revenue	741	246	987	1,101	619	449	362	2,531	96	3,614
Provision for credit losses	-	-	-	-	-	-	-	-	-	-
Noninterest expense	608	183	791	759	311	322	201	1,593	322	2,706
Income before taxes	$ 133	$ 63	$ 196	$ 342	$ 308	$ 127	$ 161	$ 938	$ (226)	$ 908
Pre-tax operating margin [(a)]	18%	26%	20%	31%	50%	28%	44%	37%	N/M	25%
Average assets	$ 13,021	$ 15,817	$ 28,838	$ 43,948	$ 30,738	$ 15,854	$ 21,070	$ 111,610	$ 43,380	$ 183,828
Excluding intangible amortization:										
Noninterest expense	$ 538	$ 162	$ 700	$ 753	$ 291	$ 316	$ 194	$ 1,554	$ 321	$ 2,575
Income before taxes	203	84	287	348	328	133	168	977	(225)	1,039
Pre-tax operating margin [(a)]	27%	34%	29%	32%	53%	30%	46%	39%	N/M	29%

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 quarter ended June 30, 2007 *(in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations
Fee and other revenue	$ 127	$ 50	$ 177	$ 520	$ 390	$ 321	$ 143	$ 1,374	$ 29	$ 1,580
Net interest revenue	(2)	14	12	148	131	75	102	456	(15)	453
Total revenue	125	64	189	668	521	396	245	1,830	14	2,033
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	$ (81)	$ 659
Pre-tax operating margin [(a)]	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	(81)	688
Pre-tax operating margin [(a)]	42%	17%	34%	31%	54%	26%	48%	39%	N/M	34%

Legacy The Bank of New York only

For the quarter ended March 31, 2007 *(in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Sector	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Sector	Other Segment	Total Continuing Operations
Fee and other revenue	$ 106	$ 50	$ 156	$ 472	$ 353	$ 310	$ 137	$ 1,272	$ 47	$ 1,475
Net interest revenue	7	14	21	125	102	74	109	410	(2)	429
Total revenue	113	64	177	597	455	384	246	1,682	45	1,904
Provision for credit losses									(15)	(15)
Noninterest expense	70	51	121	433	246	283	119	1,081	70	1,272
Income before taxes	$ 43	$ 13	$ 56	$ 164	$ 209	$ 101	$ 127	$ 601	$ (10)	$ 647
Pre-tax operating margin [(a)]	38%	20%	32%	27%	46%	26%	52%	36%	N/M	34%
Average assets	$ 1,819	$ 1,418	$ 3,237	$ 28,453	$ 15,701	$ 14,985	$ 15,010	$ 74,149	$ 24,655	$ 102,041
Excluding intangible amortization:										
Noninterest expense	$ 66	$ 51	$ 117	$ 432	$ 229	$ 277	$ 119	$ 1,057	$ 70	$ 1,244
Income before taxes	47	13	60	165	226	107	127	625	(10)	675
Pre-tax operating margin [(a)]	42%	20%	34%	28%	50%	28%	52%	37%	N/M	35%

(a) 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 $1.105 trillion at March 31, 2008, compared with $142 billion at March 31, 2007, and $1.121 trillion at Dec. 31, 2007. The year-over-year increase in AUM primarily reflects the merger with Mellon, new business and strong money market flows, partially offset by lower equity market levels. The decrease from Dec. 31, 2007 reflects lower equity markets, primarily offset by strong money market flows.

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)

Assets under management at period-end, by

product type

(in billions)	March 31, 2007 [(a)]	June 30, 2007 [(a)]	Sept. 30, 2007	Dec. 31, 2007	**March 31, 2008**
Equity securities	$ 41	$ 43	$ 456	$ 460	**$ 424**
Money market	34	41	275	296	**320**
Fixed income securities	22	22	215	218	**219**
Alternative investments and overlay	45	47	160	147	**142**
Total assets under management	$ 142	$ 153	$ 1,106	$ 1,121	**$ 1,105**

(a) Legacy The Bank of New York only.

Assets under management at period-end, by

client type

(in billions)	March 31, 2007 [(a)]	June 30, 2007 [(a)]	Sept. 30, 2007	Dec. 31, 2007	**March 31, 2008**
Institutional	$ 106	$ 113	$ 682	$ 671	**$ 636**
Mutual funds	15	18	323	349	**373**
Private client	21	22	101	101	**96**
Total assets under management	$ 142	$ 153	$ 1,106	$ 1,121	**$ 1,105**

(a) Legacy The Bank of New York only.

Changes in market value of assets under management from

Dec. 31, 2007 to March 31, 2008 - by business segment

(in billions)	Asset Management	Wealth Management	Total
Market value of assets under management at Dec. 31, 2007	$ 1,035	$ 86	$ 1,121
Net inflows (outflows):			
Long-term	(8)	2	(6)
Money market	29	-	29
Total net inflows	21	2	23
Net market depreciation [(a)]	(35)	(4)	(39)
Market value of assets under management at March 31, 2008	**$ 1,021 [(b)]**	**$ 84**	**$ 1,105**

(a) Includes the effect of changes in foreign exchange rates.
(b) Excludes $8 billion subadvised for other segments.

At March 31, 2008, the investment portfolio of money market funds and short duration products under management included approximately $3.5 billion of senior notes issued by structured investment vehicles (SIVs) which represented 1% of the portfolio. Approximately 90% of these securities have been issued by bank-sponsored SIVs and the sponsors have agreed to support the notes. More than 95% of these securities are scheduled to mature in 2008.

Table of Contents

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

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

Asset Management segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	1Q07 (a)	2Q07 (a)	3Q07	4Q07	**1Q08**	**1Q08 vs. 4Q07**	**1Q08 vs. 1Q07**
Revenue:							
Asset and wealth management:							
Mutual funds	$ 3	$ 4	$ 307	$ 323	**$ 323**	**-%**	**N/M%**
Institutional clients	68	80	331	342	**304**	**(11)**	**347**
Private clients	14	16	47	47	**45**	**(4)**	**221**
Total asset and wealth management revenue	85	100	685	712	**672**	**(6)**	**691**
Performance fees	14	20	(3)	62	**20**	**(68)**	**43**
Distribution and servicing	-	-	89	104	**86**	**(17)**	**N/M**
Other	7	7	(26)	10	**(26)**	**N/M**	**N/M**
Total fee and other revenue	106	127	745	888	**752**	**(15)**	**609**
Net interest revenue (expense)	7	(2)	(4)	17	**15**	**(12)**	**114**
Total revenue	113	125	741	905	**767**	**(15)**	**579**
Noninterest expense (ex. intangible amortization)	66	72	538	559	**562**	**1**	**752**
Income before taxes (ex. intangible amortization)	47	53	203	346	**205**	**(41)**	**336**
Amortization of intangible assets	4	4	70	70	**62**	**(11)**	**N/M**
Income before taxes	$ 43	$ 49	$ 133	$ 276	**$ 143**	**(48)**	**233**
Memo: Income before taxes (ex. intangible amortization and non-operating items)	$ 47	$ 53	$ 235 (b)	$ 346	**$ 205**	**(41)**	**336**
Pre-tax operating margin (ex. intangible amortization)	42%	42%	32% (b)	38%	**27%**		
Average assets	$ 1,819	$ 1,557	$ 13,021	$ 13,079	**$ 12,919**	**(1)%**	**610%**

(a) Legacy The Bank of New York only.

(b) Results for the third quarter of 2007 exclude a pre-tax charge ($32 million) related to the write-off of the value of the remaining interest in a legacy Mellon hedge fund manager that was disposed of in 2006.

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

BNY Mellon Asset Management is the 13th largest global asset manager, the 9th largest U.S. asset manager and the 7th largest asset manager in Europe.

We are also a top five tax-exempt, institutional U.S. asset manager.

In the first quarter of 2008, we acquired ARX 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. Also, in the first quarter, we sold a portion of Estabrook Capital Management LLC. This sale reduced our assets under management by $2.4 billion.

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 shown on the previous page. 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.

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)

Review of financial results

Income before taxes was $143 million in the first quarter of 2008 compared with $43 million in the first quarter of 2007 and $276 million in the fourth quarter of 2007. Income before taxes (excluding intangible amortization) was $205 million in the first quarter of 2008 compared with $47 million in the first quarter of 2007 and $346 million in the fourth quarter of 2007. Results in the first quarter of 2008 include $24 million of write-downs related to securities previously purchased from investment boutiques and a $25 million write-down of seed capital investments related to a formerly affiliated hedge fund manager.

Asset and wealth management revenue in the Asset Management segment was $672 million in the first quarter of 2008 compared with $85 million in the first quarter of 2007 and $712 million in the fourth quarter of 2007. The increase compared to the first quarter of 2007 reflects the merger with Mellon, the benefit of strong money market flows and growth in business outside the U.S., partially offset by the prior loss of business at one of the investment boutiques, as well as lower equity market values.

The decrease from the fourth quarter of 2007 primarily reflects lower equity market values partially offset by money market inflows. Performance fees were $20 million in the first quarter of 2008 compared with $14 million in the first quarter of 2007 and $62 million in the fourth quarter of 2007. The sequential quarter decrease reflects seasonality.

Other fee revenue was a loss of $26 million in the first quarter of 2008 reflecting $24 million of write-downs related to securities previously purchased from funds managed by the investment boutiques and $19 million of seed capital investment losses.

Noninterest expense (excluding intangible amortization) was $562 million in the first quarter of 2008 compared with $66 million in the first quarter of 2007 and $559 million in the fourth quarter of 2007. The increase compared with the first quarter of 2007 principally reflects the merger with Mellon as well as expenses in support of business growth and the previously mentioned seed capital write-down. The increase from the fourth quarter of 2007 reflects the seed capital write-down primarily offset by strong expense management.

Wealth Management segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	1Q07 [(a)]	2Q07 [(a)]	3Q07	4Q07	**1Q08**	**1Q08 vs. 4Q07**	**1Q08 vs. 1Q07**
Revenue:							
Asset and wealth management	$ 48	$ 48	$ 151	$ 157	**$ 153**	**(3)%**	**219%**
Other	2	2	10	13	**16**	**23**	**N/M**
Total fee and other revenue	50	50	161	170	**169**	**(1)**	**238**
Net interest revenue	14	14	85	86	**95**	**10**	**579**

Total revenue	64	64	246	256	**264**	**3**	**313**
Noninterest expense (ex. intangible amortization)	51	53	162	166	**167**	**1**	**227**
Income before taxes (ex. intangible amortization)	13	11	84	90	**97**	**8**	**646**
Amortization of intangible assets	-	-	21	21	**20**	**(5)**	**N/M**
Income before taxes	$ 13	$ 11	$ 63	$ 69	**$ 77**	**12**	**492**
Pre-tax operating margin (ex. intangible amortization)	20%	17%	34%	35%	**37%**		
Average loans	$ 1,336	$ 1,342	$ 6,586	$ 6,867	**$ 6,996**	**2**	**424**
Average assets	1,418	1,427	15,817	15,849	**16,627**	**5**	**1,073**
Average deposits	1,105	1,065	11,289	11,240	**11,789**	**5**	**967**
Market value of total client assets at period-end *(in billions)*	$ 59	$ 59	$ 170	$ 170	**$ 164**	**(4)**	**178**

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

Table of Contents

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

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

Business description

In the Wealth Management segment, we offer a full array of investment management, wealth and estate planning and private banking solutions to help clients protect, grow and transfer their wealth. Clients include high-net-worth individuals and families, family offices and business enterprises, charitable gift programs, and endowments and foundations. BNY Mellon Wealth Management is a top ten U.S. wealth manager with $164 billion in client assets. We serve our clients through an expansive network of offices in 16 states and 3 countries. The activities of Mellon 1st Business Bank, N.A. and Mellon United National Bank are included in this segment. On March 28, 2008, we announced that we had reached an agreement to sell Mellon 1st Business Bank to U.S. Bancorp, which is expected to close in the second quarter of 2008. The sale is expected to reduce loan and deposit levels by $1.1 billion and $2.7 billion, respectively. The transaction is expected to have an immaterial impact on net income. We also expect that this transaction will increase our adjusted tangible common equity ratio 15-20 basis points.

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 $77 million in the first quarter of 2008, compared with $13 million in the first quarter of 2007 and $69 million in the fourth quarter of 2007. Income before taxes, excluding intangible amortization, was $97 million in the first quarter of 2008, compared with $13 million in the first quarter of 2007 and $90 million in the fourth quarter of 2007.

Total fee and other revenue was $169 million in the first quarter of 2008, compared with $50 million in the first quarter of 2007 and $170 million in the fourth quarter of 2007. The increase compared with

the first quarter of 2007 primarily resulted from the merger with Mellon, new business and organic growth, partially offset by unfavorable market conditions. The decrease compared with the fourth quarter of 2007 resulted from lower market levels which more than offset the impact of organic growth and new business.

Net interest revenue increased $81 million compared with the first quarter of 2007, and $9 million compared with the fourth quarter of 2007. The increase compared with the first quarter of 2007 reflects the merger with Mellon and increased loan and deposit levels. The increase compared with the fourth quarter of 2007 was primarily due to higher loan and deposit levels, partially offset by the impact of lower spreads due to the lower interest rate environment.

Noninterest expense (excluding intangible amortization) increased $116 million compared with the first quarter of 2007 and $1 million compared with the fourth quarter of 2007. The increase compared with the first quarter of 2007 primarily reflects the merger with Mellon as well as expenses associated with new distribution channels. Noninterest expense increased less than 1% (unannualized) sequentially as higher incentive expense was primarily offset by lower seasonal expense.

Institutional Services Sector

At March 31, 2008, our assets under custody and administration were $23.1 trillion, unchanged from Dec. 31, 2007 and up from $15.9 trillion at March 31, 2007. The increase in assets under custody and administration, compared with March 31, 2007 primarily reflects the merger with Mellon and growth in the custody business, partially offset by lower market values. Equity securities comprised 30% and fixed-income securities were 70% of the assets under custody and administration at March 31, 2008, compared with 32% equity securities and 68% fixed-income securities at Dec. 31, 2007. Assets under custody and administration at March 31, 2008 consisted of assets related to custody, mutual fund, and corporate trust businesses of $18.1 trillion, broker-dealer service assets of $2.7 trillion, and all other assets of $2.3 trillion.

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)

	March 31, 2007 [(a)]	June 30, 2007 [(a)]	Sept. 30, 2007	Dec. 31, 2007	**March 31, 2008**
Market value of assets under custody and administration at period-end *(in trillions)* [(b)]	$ 15.9 [(c)]	$ 16.7 [(c)]	$ 22.7 [(c)]	$ 23.1	**$ 23.1**
Market value of securities on loan at period-end *(in billions)* [(d)]	397	397	663	633	**676**

(a) Legacy The Bank of New York only.

(b) Includes the assets under custody or administration of CIBC Mellon Global Securities Services, a joint venture between BNY Mellon and the Canadian Imperial Bank of Commerce of $930 billion at March 31, 2008, $989 billion at Dec. 31, 2007, and $957 billion at Sept. 30, 2007.

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

(d) Represents the total amount of securities on loan, both cash and non-cash, managed by the Asset Servicing segment.

Asset Servicing segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	1Q07 [(a)]	2Q07 [(a)]	3Q07	4Q07	**1Q08**	**1Q08 vs. 4Q07**	**1Q08 vs. 1Q07**
Revenue:							
Securities servicing fees - Asset Servicing	$ 390	$ 424	$ 689	$ 768	**$ 851**	**11%**	**118%**
Foreign exchange and other trading activities	67	77	161	206	**200**	**(3)**	**199**
Other	15	19	56	53	**44**	**(17)**	**193**
Total fee and other revenue	472	520	906	1,027	**1,095**	**7**	**132**
Net interest revenue	125	148	195	224	**221**	**(1)**	**77**
Total revenue	597	668	1,101	1,251	**1,316**	**5**	**120**
Noninterest expense (ex. intangible amortization)	432	464	753	807	**745**	**(8)**	**72**
Income before taxes (ex. intangible amortization)	165	204	348	444	**571**	**29**	**246**
Amortization of intangible assets	1	2	6	6	**7**	**17**	**600**
Income before taxes	$ 164	$ 202	$ 342	$ 438	**$ 564**	**29**	**244**
Pre-tax operating margin (ex. intangible amortization)	28%	31%	32%	35%	**43%**		
Average assets	$ 28,453	$ 30,819	$ 43,948	$ 48,353	**$ 53,123**	**10**	**87**
Average deposits	25,652	28,119	37,971	42,338	**46,964**	**11**	**83**
Securities lending revenue	36	55	110	164	**242**	**48**	**572**
Market value of securities on loan at period-end *(in billions)*	397	397	663	633	**676**	**7**	**70**

(a) Legacy The Bank of New York only.

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 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

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)

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 $23.1 trillion of assets under custody and administration at March 31, 2008. We are one of the largest providers of fund services in the world, servicing over $4.7 trillion in assets. We also service more than 45% 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. 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. With $1.8 trillion in tri-party balances worldwide, we are a leading collateral management agent.

Review of financial results

Income before taxes was $564 million in the first quarter of 2008 compared with $164 million in the first quarter of 2007, and $438 million in the fourth quarter of 2007.

Total fee and other revenue increased $623 million in the first quarter of 2008 compared with the first quarter of 2007 driven by the merger with Mellon, higher securities lending revenue related to market volatility, as well as net new business and the fourth quarter 2007 acquisition of the remaining 50% interest in BNY Mellon Asset Servicing B.V.

Securities lending revenue increased $206 million from the first quarter of 2007 and $78 million on a sequential quarter basis. The increase from the first quarter of 2007 resulted from the merger with Mellon, favorable spreads in the short-term credit markets and the acquisition of the remaining interest in BNY Mellon Asset Servicing B.V. The sequential quarter increase reflects the favorable spreads in the short-term credit markets and acquisition of the remaining 50% interest in BNY Mellon Asset Servicing B.V.

Foreign exchange and other trading activity increased $133 million compared with the first quarter of 2007 and decreased $6 million sequentially. The increase compared to a year ago reflects the merger with Mellon as well as higher client volumes and a significant increase in currency volatility. The sequential quarter decrease reflects lower volumes primarily offset by higher volatility.

Net interest revenue increased $96 million compared with the first quarter of 2007, and decreased $3 million compared with the fourth quarter of 2007. The increase compared with the first quarter of 2007 was primarily driven by the merger with Mellon, deposit growth and improved spreads. The sequential quarter decrease primarily reflects lower spreads.

Noninterest expense (excluding intangible amortization) increased $313 million compared with the first quarter of 2007 and decreased $62 million compared with the fourth quarter of 2007. The increase compared with the first quarter of 2007 reflects the merger with Mellon and the impact of new business and other growth initiatives as well as $12 million of expense related to capital support agreements, partially offset by the impact of merger-related synergies. The sequential decrease principally reflects the impact of merger-related synergies, lower sub-custodian fees and seasonality.

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

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

Issuer Services segment

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	1Q07 [a]	2Q07 [a]