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

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THE BANK OF NEW YORK MELLON CORPORATION

SECOND QUARTER 2007 FORM 10-Q

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Introduction

On July 1, 2007, The Bank of New York Company, Inc. (The Bank of New York) and Mellon Financial Corporation (Mellon) 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.

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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

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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.*

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

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, goa will, strategy, rapidly evolving financial markets, synergies, opportunities, well-positioned, trends, pro forma and words of similar r 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

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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.

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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

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.

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

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.

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

Quantitative and Qualitative Disclosures about Market Risk. (continued)

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.

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Noninterest expense

Noninterest expense				2Q07	2Q07			YTD07
				vs.	vs.	Year-to-date		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;

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

- incentive expense, which includes:
  - additional compensation earned under a wide range of sales commission plans and incentive plans designed to reward a combination of individual, business unit and corporate performance versus goals; and
  - stock option expense; and
- employee benefit expense, primarily medical benefits, payroll taxes, pension and other retirement benefits.

The increase in staff expense reflects a net increase in headcount associated with the Acquired Corporate Trust Business and the consolidation of AIB/BNY, partially offset by the BNY ConvergEx transaction.

Non-staff expense

Non-staff expenses include 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 expenses increased $155 million, or 32%, compared with the second quarter of 2006 reflecting:

- Higher professional, legal and other purchased services expenses resulting from higher legal expense and consulting fees.
- An increase in net occupancy primarily resulting from the conversion of AIB/BNY to a wholly-owned subsidiary.
- Transition services expense and other costs related to the Acquired Corporate Trust Business of $11 million in the current quarter and $21 million in the first quarter of 2007, recorded in other expense.
- Merger and integration expense in the second quarter of 2007 included $12 million related to the Acquired Corporate Trust Business and $35 million related to the merger with Mellon. The merger and integration expenses associated with the Mellon merger include amounts for personnel-related ($17 million), integration/conversion ($15 million), and one-time costs ($3 million).

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

Noninterest expense in the first six months of 2007 increased $454 million, or 21%, compared with the first six months of 2006. The increase primarily reflects the same factors impacting the quarterly results.

Income taxes

The effective tax rate for the second quarter of 2007 was 31.9%, compared to 33.8% in the second quarter of 2006 and 32.2% in the first quarter of 2007. The lower effective rate in the second quarter of 2007 compared to the prior year was attributable to higher foreign tax credit benefits in the second quarter of 2007. On a year-to-date basis, the effective tax rate was 32.1% compared with 33.3% in the first six months of 2006.

The projected effective tax rate for the second half of 2007 ranges between 33.8% and 34.2%. The increase in the effective tax rate is primarily attributable to the adverse effect of the merger in 2007 on New York state and local income taxes.

Our effective tax rate benefits by the amount of synthetic fuel tax credits (Section 29 of the Internal Revenue Code) we will receive. These credits relate to investments that produce alternative fuel from coal byproducts and are impacted by the price of oil.

To manage our exposure in 2007 to the risk of an increase in oil prices that could reduce synthetic fuel tax credits, we entered into an option contract covering a specified number of barrels of oil that settles at the end of 2007. The option contract economically hedges a portion of our projected 2007 synthetic fuel tax credit benefit. The contract does not qualify for hedge accounting and, as a result, changes in the fair value of the option are recorded in trading income.

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At June 30, 2007, we assumed a $70 average price per barrel after June 30, 2007 to estimate the remainder of 2007 benefit from synthetic fuel credits. We believe our assumption for the second half of 2007 is reasonable given the historic seasonal patterns for oil prices. To the extent the average oil price differs from this assumption, we do not expect a material effect on earnings in the third and fourth quarters of 2007.

Credit loss provision and net charge-offs

	Quarter ended			Six months ended	
(in millions)	**June 30, 2007**	March 31, 2007	June 30, 2006	**June 30, 2007**	June 30, 2006
Provision	**$ (15)**	$ (15)	$ (1)	**$ (30)**	$ (1)
Net (charge-offs)/recoveries:					
Commercial	**$ 5**	$ 3	$ 2	**$ 8**	$ 3
Foreign			4		6
Other			1		1
Total net (charge-offs)/recoveries	**$ 5**	$ 3	$ 7	**$ 8**	$ 10

The provision for credit losses for the second quarter of 2007 was a credit of $15 million, compared with a credit of $1 million in the second quarter of 2006 and a credit of $15 million in the first quarter of 2007, reflecting the favorable disposition of an aircraft lease and continuing excellent credit quality. We recorded a net recovery of $5 million in the second quarter of 2007, compared with a net recovery of $7 million in the second quarter of 2006 and a net recovery of $3 million in the first quarter of 2007. The second quarter and first quarter of 2007 include $5 million and $7 million, respectively, of recoveries related to leased aircraft that were sold. For the six months ended June 30, 2007, the provision for credit losses was a credit of $30 million compared with a credit of $1 million in the first half of 2006. We recorded a net recovery of $8 million for the six months ended June 30, 2007 compared with a net recovery of $10 million in the first six months of 2006.

Business segments

We have an internal information system that produces performance data for our three 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. Segment results are subject to restatement whenever improvements are made in the measurement principles or when organizational changes are made. Net interest revenue differs from the amounts shown in the Consolidated Income Statement because amounts presented in the Business Segments are on a fully taxable equivalent basis (FTE).

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

We continuously update segment information for changes that occur in the management of our businesses. In the first and second quarters of 2007, in connection with the merger with Mellon, business segment reporting was realigned to reflect the planned new business structure of the combined company. In addition, several allocation methodologies were also revised to achieve greater harmonization with Mellon s methodologies. All prior periods have been restated to reflect these revisions. It is anticipated that remaining allocation methodologies will be harmonized during the third quarter of 2007.

We now provide segment data for three segments with the Asset and Wealth Management Segment and Institutional Services Segment being further divided into sector groupings. These segments are shown below:

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

On Oct. 1, 2006, we sold substantially all of the assets of our Retail Business.

Specific segment accounting principles employed include:

- Revenue amounts reflect fee revenue generated by each segment.
- 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 sector within the Institutional Services Segment (which

includes our custody operations).

Balance sheet assets and liabilities and their related income or expense are specifically assigned to each segment. Previously, segments with a net liability position would 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 a tax equivalent basis.

The provision for credit losses is allocated to segments based on changes in each segment s credit risk during the period. Previously, the provision for credit losses was based on management s judgment as to average credit losses that would have been incurred in the operations of the segment over a credit cycle of a period of years.

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

Goodwill and intangibles are reflected within individual business segments.

The business segment information is reported on a continuing operations basis for all periods presented.

The operations of the Acquired Corporate Trust Business are included only from Oct. 1, 2006, the date on which it was acquired.

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

Market indexes	2Q06	3Q06	4Q06	1Q07	**2Q07**	**2Q07 vs. 1Q07**	Year-to-date **2007**	Year-to-date 2006	**YTD07 vs. YTD06**
S&P 500 Index *(a)*	1,270	1,336	1,418	1,421	**1,503**	**6%**	**1,503**	1,270	**18%**
NASDAQ Composite Index *(a)*	2,172	2,258	2,415	2,422	**2,603**	**7**	**2,603**	2,172	**20**
Lehman Brothers Aggregate Bond[sm] Index *(a)*	213.2	220.0	226.6	230.8	**227.9**	**(1)**	**227.9**	213.2	**7**
MSCI EAFE® Index *(a)*	1,822.9	1,885.3	2,074.5	2,147.5	**2,262.2**	**5**	**2,262.2**	1,822.9	**24**
NYSE Volume *(in billions)*	121.6	108.8	114.4	123.8	**127.7**	**3**	**251.5**	235.3	**7**
NASDAQ Volume *(in billions)*	134.2	114.6	121.5	131.4	**134.0**	**2**	**265.4**	265.0	

(a) Period end.

The results of many of our sectors are influenced by client activities that vary by quarter. For instance, we experience seasonal increases in securities lending and depositary receipts reflecting the European dividend distribution season 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 second quarter of 2007 was impacted by a seasonal pick up in corporate actions that increased revenue related to depositary receipts and securities lending. Non-program equity trading volumes were down 6% sequentially and up 5% year-over-year. In addition, average daily U.S. fixed-income trading volume was up 3% sequentially and 10% year-over-year. Total debt issuance decreased 5% sequentially and increased 15% year-over-year. The issuance of global collateralized debt obligations was up 13% versus the second quarter of 2006.

As of June 30, 2007, assets under custody and administration rose to $14.9 trillion, from $12.0 trillion at June 30, 2006 and $13.8 trillion at March 31, 2007. The increase in assets under custody and administration from June 30, 2006 primarily reflects rising asset prices, growth in the custody business and the impact of the Acquired Corporate Trust Business. Equity securities comprised 32% of the assets under custody and administration at June 30, 2007, and fixed-income securities were 68%, both unchanged from June 30, 2006. Assets under custody and administration at June 30, 2007 consisted of assets related to the custody, mutual funds, and corporate trust businesses of $10.7 trillion, broker-dealer services assets of $2.4 trillion, and all other assets of $1.8 trillion.

The consolidating schedules on the following page show the contribution of the company s sectors to its overall profitability.

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 June 30, 2007 *(in millions, presented on an FTE basis)*	**Asset Management**	**Wealth Management**	**Total Asset & Wealth Management Segment**	**Asset Servicing**	**Issuer Services**	**Clearing & Execution Services**	**Treasury Services**	**Total Institutional Services Segment**	**Other Segment**	**Total Continuing Operations**
Fee and other revenue	**$ 122**	**$ 52**	**$ 174**	**$ 520**	**$ 390**	**$ 320**	**$ 145**	**$ 1,375**	**$ 31**	**$ 1,580**
Net interest revenue	**4**	**15**	**19**	**155**	**128**	**63**	**93**	**439**	**(4)**	**454**
Total revenue	**126**	**67**	**193**	**675**	**518**	**383**	**238**	**1,814**	**27**	**2,034**
Provision for credit losses							**(7)**	**(7)**	**(8)**	**(15)**
Noninterest expense	**72**	**56**	**128**	**473**	**253**	**299**	**129**	**1,154**	**107**	**1,389**
Income before taxes	**$ 54**	**$ 11**	**$ 65**	**$ 202**	**$ 265**	**$ 84**	**$ 116**	**$ 667**	**$ (72)**	**$ 660**
Pre-tax operating margin *(a)*	**43%**	**16%**	**34%**	**30%**	**51%**	**22%**	**49%**	**37%**	**N/M**	**32%**
Average assets	**$ 1,387**	**$ 1,487**	**$ 2,874**	**$ 12,146**	**$ 5,104**	**$ 16,267**	**$ 16,966**	**$ 50,483**	**$ 60,921**	**$ 114,278** *(b)*
Excluding intangible amortization:										
Noninterest expense	**$ 68**	**$ 56**	**$ 124**	**$ 471**	**$ 236**	**$ 293**	**$ 129**	**$ 1,129**	**$ 107**	**$ 1,360**
Income before taxes	**58**	**11**	**69**	**204**	**282**	**90**	**116**	**692**	**(72)**	**689**
Pre-tax operating margin *(a)*	**46%**	**16%**	**36%**	**30%**	**54%**	**23%**	**49%**	**38%**	**N/M**	**34%**

For the quarter ended March 31, 2007 *(in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Segment	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Segment	Other Segment	Total Continuing Operations
Fee and other revenue	$ 101	$ 51	$ 152	$ 476	$ 356	$ 308	$ 132	$ 1,272	$ 51	$ 1,475
Net interest revenue	6	16	22	132	110	61	97	400	7	429
Total revenue	107	67	174	608	466	369	229	1,672	58	1,904
Provision for credit losses							(3)	(3)	(12)	(15)
Noninterest expense	67	55	122	442	251	276	130	1,099	51	1,272
Income before taxes	$ 40	$ 12	$ 52	$ 166	$ 215	$ 93	$ 102	$ 576	$ 19	$ 647
Pre-tax operating margin *(a)*	37%	18%	30%	27%	46%	25%	45%	34%	N/M	34%
Average assets	$ 1,387	$ 1,448	$ 2,835	$ 10,610	$ 4,235	$ 16,363	$ 17,003	$ 48,211	$ 50,929	$ 101,975 *(b)*
Excluding intangible amortization:										
Noninterest expense	$ 63	$ 55	$ 118	$ 441	$ 234	$ 270	$ 130	$ 1,075	$ 51	$ 1,244
Income before taxes	44	12	56	167	232	99	102	600	19	675
Pre-tax operating margin *(a)*	41%	18%	32%	27%	50%	27%	45%	36%	N/M	35%

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

For the quarter ended Dec. 31, 2006 *(in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Segment	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Segment	Other Segment	Total Continuing Operations
Fee and other revenue	$ 109	$ 49	$ 158	$ 424	$ 371	$ 296	$ 132	$ 1,223	$ 60	$ 1,441
Net interest revenue	7	15	22	136	107	63	101	407	23	452
Total revenue	116	64	180	560	478	359	233	1,630	83	1,893
Provision for credit losses					(1)	2	(7)	(6)	(9)	(15)
Noninterest expense	74	53	127	422	246	262	129	1,059	99	1,285
Income before taxes	$ 42	$ 11	$ 53	$ 138	$ 233	$ 95	$ 111	$ 577	$ (7)	$ 623
Pre-tax operating margin *(a)*	36%	17%	29%	25%	49%	26%	48%	35%	N/M	33%
Average assets	$ 1,226	$ 1,481	$ 2,707	$ 9,453	$ 3,988	$ 14,825	$ 16,615	$ 44,881	$ 54,499	$ 102,087*(b)*
Excluding intangible amortization:										
Noninterest expense	$ 70	$ 53	$ 123	$ 414	$ 230	$ 256	$ 129	$ 1,029	$ 99	$ 1,251
Income before taxes	46	11	57	146	249	101	111	607	(7)	657
Pre-tax operating margin *(a)*	40%	17%	32%	26%	52%	28%	48%	37%	N/M	35%

For the quarter ended Sept. 30, 2006 *(in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Segment	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Segment	Other Segment	Total Continuing Operations
Fee and other revenue	$ 84	$ 47	$ 131	$ 427	$ 205	$ 328	$ 141	$ 1,101	$ 31	$ 1,263
Net interest revenue	3	16	19	119	49	60	98	326	13	358
Total revenue	87	63	150	546	254	388	239	1,427	44	1,621
Provision for credit losses					1		(3)	(2)	(2)	(4)
Noninterest expense	58	52	110	411	127	309	126	973	113	1,196
Income before taxes	$ 29	$ 11	$ 40	$ 135	$ 126	$ 79	$ 116	$ 456	$ (67)	$ 429
Pre-tax operating margin *(a)*	33%	17%	27%	25%	50%	20%	49%	32%	N/M	26%
Average assets	$ 1,082	$ 1,503	$ 2,585	$ 8,641	$ 1,359	$ 16,363	$ 16,680	$ 43,043	$ 49,951	$ 95,579*(b)*
Excluding intangible amortization:										
Noninterest expense	$ 54	$ 52	$ 106	$ 410	$ 126	$ 301	$ 126	$ 963	$ 113	$ 1,182
Income before taxes	33	11	44	136	127	87	116	466	(67)	443
Pre-tax operating margin *(a)*	38%	17%	29%	25%	50%	22%	49%	33%	N/M	27%

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

For the quarter ended June 30, 2006 *(in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Segment	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Segment	Other Segment	Total Continuing Operations
Fee and other revenue	$ 85	$ 51	$ 136	$ 474	$ 220	$ 352	$ 156	$ 1,202	$ 32	$ 1,370
Net interest revenue	3	13	16	114	54	56	97	321	28	365
Total revenue	88	64	152	588	274	408	253	1,523	60	1,735
Provision for credit losses		(2)	(2)			(4)	7	3	(2)	(1)
Noninterest expense	55	52	107	410	128	312	131	981	50	1,138
Income before taxes	$ 33	$ 14	$ 47	$ 178	$ 146	$ 100	$ 115	$ 539	$ 12	$ 598
Pre-tax operating margin [(a)]	38%	22%	31%	30%	53%	25%	45%	35%	N/M	34%
Average assets	$ 1,055	$ 1,446	$ 2,501	$ 8,873	$ 1,316	$ 17,175	$ 16,280	$ 43,644	$ 50,250	$ 96,395 [(b)]
Excluding intangible amortization:										
Noninterest expense	$ 51	$ 52	$ 103	$ 408	$ 127	$ 304	$ 131	$ 970	$ 50	$ 1,123
Income before taxes	37	14	51	180	147	108	115	550	12	613
Pre-tax operating margin [(a)]	42%	22%	34%	31%	54%	26%	45%	36%	N/M	35%

(a) Income before taxes divided by total revenue.

(b) Including average assets of discontinued operations of $45 million, $66 million, $51 million, $13,285 million and $13,993 million for quarters ended June 30, 2007, March 31, 2007, Dec. 31, 2006, Sept. 30, 2006 and June 30, 2006, consolidated average assets were $114,323 million for the second quarter of 2007, $102,041 million for the first quarter of 2007, $102,138 million for the fourth quarter of 2006, $108,864 million for the third quarter of 2006 and $110,388 million for the second quarter of 2006.

N/M - Not meaningful.

For the six months ended June 30, 2007 ***(in millions, presented on an FTE basis)***	**Asset Management**	**Wealth Management**	**Total Asset & Wealth Management Segment**	**Asset Servicing**	**Issuer Services**	**Clearing & Execution Services**	**Treasury Services**	**Total Institutional Services Segment**	**Other Segment**	**Total Continuing Operations**
Fee and other revenue	**$ 223**	**$ 103**	**$ 326**	**$ 996**	**$ 746**	**$ 628**	**$ 277**	**$ 2,647**	**$ 82**	**$ 3,055**
Net interest revenue	**10**	**31**	**41**	**287**	**238**	**124**	**190**	**839**	**3**	**883**
Total revenue	**233**	**134**	**367**	**1,283**	**984**	**752**	**467**	**3,486**	**85**	**3,938**
Provision for credit losses							**(10)**	**(10)**	**(20)**	**(30)**
Noninterest expense	**139**	**111**	**250**	**915**	**504**	**575**	**259**	**2,253**	**158**	**2,661**
	$ 94	**$ 23**	**$ 117**	**$ 368**	**$ 480**	**$ 177**	**$ 218**	**$ 1,243**	**$ (53)**	**$ 1,307**

Income before taxes										
Pre-tax operating margin [(a)]	**40%**	**17%**	**32%**	**29%**	**49%**	**24%**	**47%**	**36%**	**N/M**	**33%**
Average assets	**$ 1,387**	**$ 1,468**	**$ 2,855**	**$ 11,382**	**$ 4,672**	**$ 16,315**	**$ 16,984**	**$ 49,353**	**$ 56,009**	**$ 108,217**[(b)]
Excluding intangible amortization:										
Noninterest expense	**$ 131**	**$ 111**	**$ 242**	**$ 912**	**$ 470**	**$ 563**	**$ 259**	**$ 2,204**	**$ 158**	**$ 2,604**
Income before taxes	**102**	**23**	**125**	**371**	**514**	**189**	**218**	**1,292**	**(53)**	**1,364**
Pre-tax operating margin [(a)]	**44%**	**17%**	**34%**	**29%**	**52%**	**25%**	**47%**	**37%**	**N/M**	**35%**

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

For the six months ended June 30, 2006 *(in millions, presented on an FTE basis)*	Asset Management	Wealth Management	Total Asset & Wealth Management Segment	Asset Servicing	Issuer Services	Clearing & Execution Services	Treasury Services	Total Institutional Services Segment	Other Segment	Total Continuing Operations
Fee and other revenue	$ 164	$ 102	$ 266	$ 901	$ 385	$ 735	$ 291	$ 2,312	$ 57	$ 2,635
Net interest revenue	5	29	34	220	102	110	193	625	52	711
Total revenue	169	131	300	1,121	487	845	484	2,937	109	3,346
Provision for credit losses		(2)	(2)			(6)	15	9	(8)	(1)
Noninterest expense	105	105	210	804	242	619	255	1,920	77	2,207
Income before taxes	$ 64	$ 28	$ 92	$ 317	$ 245	$ 232	$ 214	$ 1,008	$ 40	$ 1,140
Pre-tax operating margin *(a)*	38%	21%	31%	28%	50%	27%	44%	34%	N/M	34%
Average assets	$ 990	$ 1,485	$ 2,475	$ 8,150	$ 1,333	$ 17,277	$ 15,902	$ 42,662	$ 48,987	$ 94,124*(b)*
Excluding intangible amortization:										
Noninterest expense	$ 98	$ 105	$ 203	$ 800	$ 241	$ 603	$ 255	$ 1,899	$ 77	$ 2,179
Income before taxes	71	28	99	321	246	248	214	1,029	40	1,168
Pre-tax operating margin *(a)*	42%	21%	33%	29%	51%	29%	44%	35%	N/M	35%

(a) Income before taxes divided by total revenue.

(b) Including average assets of discontinued operations of $55 million for first six months of 2007 and $14,147 million for the first six months of 2006, consolidated average assets were $108,272 million for the first six months of 2007 and $108,271 million for the first six months of 2006.

N/M - Not meaningful.

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

Quantitative and Qualitative Disclosures about Market Risk. (continued)

Asset and Wealth Management Segment

Asset and Wealth Management fee revenue is dependent on the overall level and mix of assets under management and the management fees charged for managing those assets. Assets under management (AUM) were $153 billion at June 30, 2007, compared with $127 billion at June 30, 2006, and $142 billion at March 31, 2007. The year-over-year increase in AUM primarily reflects the continued good growth across asset classes and strategies. Institutional clients represent 77% of AUM while individual clients equal 23%.

Assets under management at period-end

(in billions)	2Q06	3Q06	4Q06	1Q07	**2Q07**
Equity securities	$ 36	$ 36	$ 39	$ 41	**$ 43**
Fixed-income securities	21	20	21	22	**22**
Alternative investments	28	30	33	33	**36**
Liquid assets	31	34	38	34	**41**
Foreign exchange overlay	11	11	11	12	**11**
Total assets under management	$ 127	$ 131	$ 142	$ 142	**$ 153**

As part of the planning process for the integration of The Bank of New York and Mellon, we no longer include securities lending cash collateral assets in total assets under management. The following table provides a reconciliation of assets under management as originally reported to the current disclosure format.

Assets under management reconciliation

(in billions)	2Q06	3Q06	4Q06	1Q07
Originally reported	$ 170	$ 179	$ 190	$ 196
Securities lending adjustment	(43)	(48)	(48)	(54)
Assets under management - revised	$ 127	$ 131	$ 142	$ 142

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Asset Management sector

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	2Q06	3Q06	4Q06	1Q07	**2Q07**	**2Q07 vs. 2Q06**	Year-to-date **2007**	Year-to-date 2006	**YTD07 vs YTD06**
Revenue:									
Asset and wealth management:									
Mutual funds	$ 3	$ 2	$ 3	$ 3	**$ 4**	**33%**	**$ 7**	$ 5	**40%**
Institutional clients	61	64	72	68	**80**	**31**	**148**	116	**28**
Private clients	12	12	13	13	**15**	**25**	**28**	23	**22**
Total asset management revenue	76	78	88	84	**99**	**30**	**183**	144	**27**
Performance fees	7	3	18	14	**21**	**200**	**35**	14	**150**
Other	2	3	3	3	**2**		**5**	6	**(17)**
Total fee and other revenue	85	84	109	101	**122**	**44**	**223**	164	**36**
Net interest revenue	3	3	7	6	**4**	**N/M**	**10**	5	**100**
Total revenue	88	87	116	107	**126**	**43**	**233**	169	**38**
Noninterest expense (excluding intangible amortization)	51	54	70	63	**68**	**33**	**131**	98	**34**
Income before taxes (excluding intangible amortization)	37	33	46	44	**58**	**57**	**102**	71	**44**
Amortization of intangible assets	4	4	4	4	**4**		**8**	7	**14**
Income before taxes	$ 33	$ 29	$ 42	$ 40	$ 54	**64%**	$ 94	$ 64	**47%**
Pre-tax operating margin (excluding intangible amortization)	42%	38%	40%	41%	**46%**		**44%**	42%	
Average assets	$ 1,055	$ 1,082	$ 1,226	$ 1,387	**$ 1,387**	**31%**	**$ 1,387**	$ 990	**40%**

N/M - Not meaningful.

Business description

The Asset Management sector provides investment solutions predominantly to institutional investors around the world applying a broad spectrum of investment strategies. Asset Management s alternative strategies have expanded to include funds of hedge funds, private equity, alternative fixed income, and real estate.

Our asset management subsidiaries include:

Ivy Asset Management Corporation, one of the country s leading fund of hedge funds firms, offers a comprehensive range of multi-manager hedge fund products and customized portfolio solutions.

Alcentra, a company that offers sophisticated alternative credit investments, including leveraged loans and subordinated and distressed debt.

Urdang, a real estate investment firm, offers the opportunity to invest in real estate through separate accounts, a closed-end commingled fund that invests directly in properties, and a separate account that invests in publicly-traded real estate investment trusts.

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

Estabrook Capital Management LLC, a company that offers value-oriented investment management strategies, including socially responsible investing.

Gannett, Welsh & Kotler, a company that specializes in tax-exempt securities management and equity portfolio strategies.
We also provide investment management services directly to institutions and manage the Hamilton family of mutual funds.

Review of financial results

Income before taxes increased 64% to $54 million in the second quarter of 2007 from $33 million in the second quarter of 2006, and increased 35% from $40 million in the first quarter of 2007.

Fee and other revenue increased $37 million, or 44%, in the second quarter of 2007 compared with the second quarter of 2006 reflecting higher asset management fees from institutional clients. Performance fees were up reflecting strong results at two of our alternative asset management subsidiaries, Ivy Asset Management and Alcentra. Fee and other revenue increased on a sequential-quarter basis primarily reflecting the same factors affecting year-over-year results.

Noninterest expense (excluding intangible amortization) increased $17 million, or 33%, in the second quarter of 2007 compared with the second quarter of 2006 reflecting higher incentive compensation, outside help, technology and legal expenses. The sequential-quarter increase in noninterest expense primarily reflects legal, technology and other compensation expenses.

On a year-to-date basis, income before taxes increased $30 million, or 47%, compared with the first six months of 2006. The pre-tax operating margin (excluding intangible amortization) was 44% in the first six months of 2007 reflecting a 2% increase. Fee and other revenue increased $59 million, or 36%, primarily due to higher asset management fees from institutional clients and higher performance fees at Ivy and Alcentra. Net interest revenue increased $5 million compared with the first half of 2006 reflecting higher interest-earning assets. Noninterest expense (excluding intangible amortization) increased $33 million, or 34%, in the first half of 2007 compared with the first half of 2006 primarily due to higher other compensation, salaries and outside help, technology, occupancy and legal expenses.

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Wealth Management sector

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	2Q06	3Q06	4Q06	1Q07	**2Q07**	**2Q07 vs. 2Q06**	Year-to-date **2007**	2006	**YTD07 vs. YTD06**
Revenue:									
Asset and wealth management	$ 50	$ 46	$ 48	$ 50	**$ 50**	**%**	**$ 100**	$ 99	**1%**
Other	1	1	1	1	**2**	**N/M**	**3**	3	
Total fee and other revenue	51	47	49	51	**52**	**2**	**103**	102	**1**
Net interest revenue	13	16	15	16	**15**	**15**	**31**	29	**7**
Total revenue	64	63	64	67	**67**	**5**	**134**	131	**2**
Provision for credit losses	(2)					**N/M**		(2)	**N/M**
Noninterest expense (excluding intangible amortization)	52	52	53	55	**56**	**8**	**111**	105	**6**
Income before taxes (excluding intangible amortization)	14	11	11	12	**11**	**(21)**	**23**	28	**(18)**
Amortization of intangible assets									
Income before taxes	$ 14	$ 11	$ 11	$ 12	**$ 11**	**(21)**	**$ 23**	$ 28	**(18)**
Pre-tax operating margin (excluding intangible amortization)	22%	17%	17%	18%	**16%**		**17%**	21%	
Average loans	$ 1,352	$ 1,410	$ 1,373	$ 1,336	**$ 1,341**	**(1)**	**$ 1,339**	$ 1,391	**(4)**
Average assets	1,446	1,503	1,481	1,448	**1,487**	**3**	**1,468**	1,485	**(1)**
Average deposits	1,110	1,116	1,090	1,119	**1,065**	**(4)**	**1,092**	1,125	**(3)**
Market value of total client assets at period-end *(in billions)*	$ 61	$ 59	$ 60	$ 59	**$ 59**	**(3)**	**59**	61	**(3)**

N/M - Not meaningful.

Business description

In the Wealth Management sector, we offer a full array of investment management, wealth management, and comprehensive financial management services to help individuals plan, invest, and arrange intergenerational wealth transition, which includes financial and estate planning, trust and fiduciary services, customized banking services, and brokerage and investment solutions. Clients include predominantly high-net-worth individuals, families, family offices, charitable gift programs, endowments, foundations, professionals, and entrepreneurs.

Review of financial results

Income before taxes was down 21% to $11 million for the second quarter of 2007 from $14 million in the second quarter of 2006, and down 8% from $12 million in the first quarter of 2007.

Total fee and other revenue increased $1 million, or 2%, in the second quarter of 2007 compared with the second quarter of 2006 primarily resulting from nonrecurring termination fees, new business and market performance.

Net interest revenue increased $2 million, or 15%, compared with the second quarter of 2006, reflecting growth in non-interest bearing deposits coupled with a higher spread earned. On a sequential-quarter basis, net interest revenue

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decreased reflecting a lower level of deposits and a challenging spread environment.

Noninterest expense (excluding intangible amortization) increased $4 million, or 8%, in the second quarter of 2007 compared with the second quarter of 2006 primarily reflecting higher salaries and outside help, occupancy and technology expense. The sequential-quarter increase primarily reflects higher technology expense.

On a year-to-date basis, income before taxes decreased $5 million, or 18%, compared with the first six months of 2006. The pre-tax operating margin (excluding intangible amortization) was 17% in the first six months of 2007 reflecting a 4% decrease. Fee and other revenue increased $1 million, or 1%. Net interest revenue increased reflecting growth in noninterest bearing deposits coupled with a higher spread earned. Noninterest expense (excluding intangible amortization) increased $6 million, or 6%, in the first half of 2007 compared with the first half of 2006 primarily driven by higher salaries and outside help, operations and occupancy expenses.

Institutional Services Segment

Asset Servicing sector

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	2Q06	3Q06	4Q06	1Q07	**2Q07**	**2Q07 vs. 2Q06**	Year-to-date **2007**	Year-to-date 2006	**YTD07 vs. YTD06**
Revenue:									
Securities servicing fees - Asset Servicing	$ 364	$ 345	$ 353	$ 393	**$ 426**	**17%**	**$ 819**	$ 698	**17%**
Foreign exchange and other trading activities	79	50	54	68	**77**	**(3)**	**145**	145	
Other	31	32	17	15	**17**	**(45)**	**32**	58	**(45)**
Total fee and other revenue	474	427	424	476	**520**	**10**	**996**	901	**11**
Net interest revenue	114	119	136	132	**155**	**36**	**287**	220	**30**
Total revenue	588	546	560	608	**675**	**15**	**1,283**	1,121	**14**
Noninterest expense (excluding intangible amortization)	408	410	414	441	**471**	**15**	**912**	800	**14**
Income before taxes (excluding intangible amortization)	180	136	146	167	**204**	**13**	**371**	321	**16**
Amortization of intangible assets	2	1	8	1	**2**		**3**	4	**N/M**
Income before taxes	$ 178	$ 135	$ 138	$ 166	**$ 202**	**13**	**$ 368**	$ 317	**16**
Pre-tax operating margin (excluding intangible amortization)	31%	25%	26%	27%	**30%**		**29%**	29%	
Average assets	$ 8,873	$ 8,641	$ 9,453	$ 10,610	**$ 12,146**	**37**	**$ 11,382**	$ 8,150	**40**
Average deposits	23,372	23,660	24,048	24,409	**29,773**	**27**	**27,106**	22,282	**22**
Securities lending revenue	50	40	35	36	**54**	**8**	**90**	95	**(5)**
Market value of securities on loan at period-end *(in*	380	389	399	397	**397**	**4**	**397**	380	**4**

billions)

N/M - Not meaningful.

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Business description

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

We are one of the leading securities servicing companies with a total of $14.9 trillion of assets under custody and administration at June 30, 2007. We are one of the largest mutual fund custodians for U.S. funds and one of the largest providers of fund services in the world with over $2.0 trillion in total assets. We also service more than 45% of the exchange-traded funds in the United States, and are a leading U.K. custodian. In securities lending, we are one of the largest lenders of U.S. Treasury securities and depositary receipts with a lending pool of approximately $1.9 trillion in 27 markets around the world.

We clear approximately 50% of transactions in U.S. Government securities. We are a leader in global clearance, clearing equity and fixed income transactions in 101 markets. With $1.5 trillion in tri-party balances worldwide, we are a leading collateral management agent.

Review of financial results

Income before taxes was up 13% to $202 million for the second quarter of 2007 from $178 million in the second quarter of 2006, and up 22% from $166 million in the first quarter of 2007.

Total fee and other revenue increased $46 million, or 10%, in the second quarter of 2007 compared with the second quarter of 2006 driven by increased transaction volumes, new assets from existing clients and organic growth across all business products, especially global custody, domestic and international mutual funds, exchange-traded funds, hedge fund servicing and collateral management. European asset servicing continues to gain momentum with strong second quarter revenue growth across all products, again reflective of the significant cross-border investment interest and capital flow. In addition, we benefited from the conversion of AIB/BNY to a wholly-owned subsidiary in the fourth quarter of 2006. Securities lending revenue increased $18 million, or 50%, on a sequential-quarter basis and $4 million, or 8%, from the second quarter of 2006 primarily due to higher spreads for fixed income as well as increased volumes and fees. Additionally, the sequential quarter increase reflects seasonality.

In broker-dealer services, the continued adoption of tri-party repo arrangements remains a key driver. The growth in global clearance was due to new business wins and increased volume from existing clients. We now handle approximately $1.5 trillion of financing for our broker-dealer clients daily through collateralized financing agreements, up approximately 20% from a year ago.

Foreign exchange revenue and other trading activities declined from the year-ago quarter as higher volumes were offset by lower volatility. Foreign exchange and other trading activities results increased on a sequential-quarter basis driven by higher volumes.

Net interest revenue increased $41 million compared with the second quarter of 2006, and increased $23 million compared with the first quarter of 2007, primarily driven by deposit growth coupled with the higher value of deposits in a rising rate environment.

Noninterest expense (excluding intangible amortization) increased $63 million, or 15%, in the second quarter of 2007 compared with the second quarter of 2006 reflecting higher claims by clients, salaries and outside help, sub-custodian, technology, occupancy and the conversion of AIB/BNY to a wholly-owned subsidiary. The sequential-quarter increase is primarily due to increased technology, sub-custodian, claims by clients, occupancy and salaries and outside help.

On a year-to-date basis, income before taxes increased $51 million, or 16%, compared with the first six months of 2006. The pre-tax operating margin (excluding intangible amortization) was 29%

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in the first six months of 2007 and 2006. Fee and other revenue increased $95 million, or 11%, primarily due to organic growth from existing clients across all products and the conversion of AIB/BNY to a wholly-owned subsidiary. Net interest revenue increased $67 million primarily driven by deposit growth coupled with the higher value of deposits in a rising rate environment. Noninterest expense (excluding intangible amortization) increased $112 million, or 14%, in the first half of 2007 compared with the first half of 2006 primarily due to higher claims by customers, salaries and outside help, sub-custodian, occupancy, technology and the conversion of AIB/BNY to a wholly-owned subsidiary.

Issuer Services sector

ollar amounts in millions, less otherwise noted; esented on an FTE basis)	2Q06	3Q06	4Q06	1Q07	**2Q07**	**2Q07 vs. 1Q07**	**2Q07 vs. 2Q06**	Year-to-date **2007**	2006	**YTD07 vs. YTD06**
evenue:										
curities servicing fees - suer services	$ 207	$ 194	$ 340	$ 319	**$ 367**	**15%**	**77%**	**$ 686**	$ 361	**90**
her	13	11	31	37	**23**	**(38)**	**77**	**60**	24	**150**
otal fee and other revenue	220	205	371	356	**390**	**10**	**77**	**746**	385	**94**
et interest revenue	54	49	107	110	**128**	**16**	**137**	**238**	102	**133**
otal revenue	274	254	478	466	**518**	**11**	**89**	**984**	487	**102**
ovision for credit losses		1	(1)							
oninterest expense xcluding intangible nortization)	127	126	230	234	**236**	**1**	**86**	**470**	241	**95**
come before taxes xcluding intangible nortization)	147	127	249	232	**282**	**22**	**92**	**514**	246	**109**
mortization of intangible sets	1	1	16	17	**17**		**N/M**	**34**	1	**N/M**
come before taxes	$ 146	$ 126	$ 233	$ 215	**$ 265**	**23**	**82**	**$ 480**	$ 245	**96**
e-tax operating margin xcluding intangible nortization)	54%	50%	52%	50%	**54%**			**52%**	51%	
verage assets	$ 1,316	$ 1,359	$ 3,988	$ 4,235	**$ 5,104**	**21**	**288**	**$ 4,672**	$ 1,333	**250**
verage deposits	6,350	5,837	10,935	11,711	**18,431**	**57**	**190**	**15,090**	6,094	**148**
umber of corporate actions	660	656	526	344	**682**	**98**	**3**	**1,026**	992	**3**
epository receipt trading lue *(in billions)*	$ 182	$ 144	$ 178	$ 233	**$ 248**	**6**	**36**	**481**	342	**41**

N/M - Not meaningful.

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Business description

The Issuer Services sector provides a diverse array of products and services to corporations and shareholders, including corporate trust, depositary receipts, employee investment plan services, and stock transfer. Revenue is driven by the volume of transactions processed and types of services provided.

We are the depositary for more than 1,270 American and global depositary receipt programs, with a 63% market share, servicing leading companies from 60 countries. As the world s largest trustee, we provide diverse services for corporate, municipal, structured, and international debt securities. We serve as trustee or agent for some 90,000 clients with $10 trillion in outstanding debt securities from offices in 51 cities worldwide. We are the third largest stock transfer agent in the United States, servicing more than 17 million shareowners. Investment plan services has more than 120 clients with 650,000 employees in over 54 countries.

Review of financial results

Income before taxes was up 82% to $265 million for the second quarter of 2007 from $146 million in the second quarter of 2006, and up 23% from $215 million in the first quarter of 2007.

Total fee and other revenue increased $170 million, or 77%, in the second quarter of 2007 compared with the second quarter of 2006. Issuer services fees continued to exhibit strong growth in the second quarter compared with last year s second quarter. The Acquired Corporate Trust Business significantly impacted comparisons of the second quarter of 2007 to the second quarter of 2006. Issuer services fees increased sequentially over the strong first quarter reflecting continued excellent performance in corporate and municipal finance products. On a sequential-quarter basis, depositary receipts had another quarter of double-digit growth reflecting strong seasonal activity. We also continue to see strong underlying activity, particularly from emerging markets.

Other fee revenue increased $10 million, compared with the second quarter of 2006 and decreased $14 million compared with the first quarter of 2007, due primarily to the net economic value payments related to deposits of the Acquired Corporate Trust Business. The net economic value payments totaled $13 million in the second quarter of 2007 and $25 million in the first quarter of 2007.

Net interest revenue increased $74 million, or 137%, in the second quarter of 2007 compared with the second quarter of 2006, primarily resulting from the Acquired Corporate Trust Business and organic growth, reflecting the impact of new business and increased client volumes, as well as increased deposit spreads due to rising interest rates. The sequential-quarter increase in net interest revenue was driven by the conversion of $10 billion of deposits from the Acquired Corporate Trust Business and by the higher value on noninterest-bearing deposits. Average deposits were $18.4 billion in the second quarter of 2007, compared with $6.4 billion in the second quarter of 2006 and $11.7 billion in the first quarter of 2007. The higher levels of deposits reflect the impact of the Acquired Corporate Trust Business as well as increased liquidity from our other issuer services customers compared with 2006.

Noninterest expense (excluding intangible amortization) increased $109 million, or 86%, in the second quarter of 2007 compared with the second quarter of 2006 reflecting the impact of the Acquired Corporate Trust Business and expenses associated with revenue growth in depositary receipts and corporate trust. The sequential-quarter increase reflects higher salaries, outside help and claims by clients.

Income before taxes increased $235 million, or 96%, in the first six months of 2007 compared with the first six months of 2006 primarily resulting from increased fee and other revenue. Fee and other revenue increased $361 million, or 94%, during the first half of 2007 compared with the first half of 2006 due to the impact of the Acquired Corporate Trust Business as well as continued strong growth.

Net interest revenue increased $136 million, or 133%, in the first six months of 2007 compared with the first six months of 2006 primarily due to the Acquired Corporate Trust Business and organic

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growth, reflecting the impact of new business and increased client volumes, as well as increased deposit spreads due to rising interest rates.

Noninterest expense (excluding intangible amortization) increased $229 million, or 95%, in the first six months of 2007 compared with the first six months of 2006 primarily due to the Acquired Corporate Trust Business as well as expenses incurred in support of business growth.

Clearing & Execution Services sector

ar amounts in millions, s otherwise noted; ented on an FTE basis)	2Q06	3Q06	4Q06	1Q07	**2Q07**	**2Q07 vs. 1Q07**	**2Q07 vs. 2Q06**	Year-to-date **2007**	2006	**YTD0 vs. YTD0**
nue:										
rities servicing fees - ring and execution ces	$ 325	$ 290	$ 266	$ 281	**$ 291**	**4%**	**(10)%**	**$ 572**	$ 654	**(1**
r	27	38	30	27	**29**	**7**	**7**	**56**	81	**(3**
fee and other revenue	352	328	296	308	**320**	**4**	**(9)**	**628**	735	**(1**
nterest revenue	56	60	63	61	**63**	**3**	**13**	**124**	110	**1**
revenue	408	388	359	369	**383**	**4**	**(6)**	**752**	845	**(1**
ision for credit losses	(4)		2						(6)	**N/M**
nterest expense uding intangible tization)	304	301	256	270	**293**	**9**	**(4)**	**563**	603	**(**
me before taxes uding intangible tization)	108	87	101	99	**90**	**(9)**	**(17)**	**189**	248	**(2**
rtization of intangible s	8	8	6	6	**6**		**(25)**	**12**	16	**(2**
me before taxes	$ 100	$ 79	$ 95	$ 93	**$ 84**	**(10)**	**(16)**	**$ 177**	$ 232	**(2**
ax operating margin uding intangible tization)	26%	22%	28%	27%	**23%**			**25%**	29%	
age assets	$ 17,175	$ 16,363	$ 14,825	$ 16,363	**$ 16,267**	**(1)**	**(5)**	**$ 16,315**	$ 17,277	**(**
age active accounts *(in sands)*	5,122	5,168	5,133	5,149	**5,195**	**1**	**1**	**5,172**	5,058	
age margin deposits *(in sands)*	5,506	5,158	5,176	5,396	**5,551**	**3**	**1**	**5,474**	5,577	**(**

N/M - Not meaningful.

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Business description

Our Clearing & Execution Services sector consists of the Pershing clearing business, a 35% equity interest in BNY ConvergEx Group and the B-Trade and G-Trade businesses, which are expected to become part of the BNY ConvergEx Group in 2008. The BNY ConvergEx transaction changed the accounting from a fully consolidated subsidiary to a 35% equity interest recorded in other income.

Our Pershing and Pershing Advisor Solutions subsidiaries provide financial institutions and independent registered investment advisors with operational support, trading services, flexible technology, and practice management programs, all with unrivalled service excellence. Pershing services more than 1,150 retail and institutional financial organizations and independent registered investment advisors who collectively represent more than five million active investors.

Through our affiliate, BNY ConvergEx Group LLC, we provide liquidity and execution management, investment technologies, research and commission management, transition management and intermediary and clearing services in over 90 global markets, executing 545 million shares each day and clearing more than 1.2 million trades daily.

In execution services, we provide broker-assisted and electronic trading services. Our execution services business is one of the largest global institutional agency brokerage organizations. In addition, we are one of the leading institutional electronic brokers for non-U.S. dollar equity execution.

Review of financial results

Income before taxes decreased 16% to $84 million for the second quarter of 2007 from $100 million in the second quarter of 2006, and decreased $9 million, or 10%, from $93 million in the first quarter of 2006.

Total fee and other revenue decreased $32 million, or 9%, in the second quarter of 2007 compared with the second quarter of 2006. Clearing and execution services fees declined reflecting the disposition of certain execution businesses in the BNY ConvergEx transaction. These businesses had revenues of $74 million in the second quarter of 2006. On a sequential-quarter basis, clearing and execution servicing fees were up $10 million, or 4% (unannualized), reflecting solid performance at Pershing as well as the benefits of new business.

Net interest revenue increased $7 million, or 13%, compared with the second quarter of 2006, and $2 million compared with the first quarter of 2007, resulting from a higher level of interest-earning assets offset by lower spreads.

Noninterest expense (excluding intangible amortization) decreased $11 million, or 4%, in the second quarter of 2007 compared with the second quarter of 2006 reflecting lower clearing expense, commissions, incentive compensation, and the disposition of certain execution businesses in the BNY ConvergEx transaction. The sequential-quarter increase in noninterest expense reflects higher incentive compensation and clearing expense as well as costs associated with the transfer of positions to Florida.

On a year-to-date basis, income before taxes decreased $55 million, or 24%, compared with the first six months of 2006. The pre-tax operating margin (excluding intangible amortization) was 25% in the first six months of 2007 reflecting a 4% decrease. Fee and other revenue decreased $107 million, or 15%, primarily due to the BNY ConvergEx transaction and the $35 million gain on the sale of NYSE seats in 2006. Net interest revenue increased by $14 million reflecting a higher level of interest-earning assets partially offset by lower spreads. Noninterest expense (excluding intangible amortization) decreased $40 million, or 7%, in the first half of 2007 compared with the first half of 2006 primarily due to lower clearing expenses, other compensation and commissions.

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Treasury Services sector

(dollar amounts in millions, unless otherwise noted; presented on an FTE basis)	2Q06	3Q06	4Q06	1Q07	**2Q07**	**2Q07 vs. 2Q06**	Year-to-date **2007**	2006	**YTD07 vs. YTD06**
Revenue:									
Treasury services	$ 50	$ 53	$ 49	$ 48	**$ 53**	**6%**	**$ 101**	$ 99	**2%**
Other	106	88	83	84	**92**	**(13)**			