

Bank of New York Mellon CORP

Form 10-Q

November 07, 2008

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

**For the Quarterly Period Ended September 30, 2008**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 000-52710

## THE BANK OF NEW YORK MELLON CORPORATION

*(Exact name of registrant as specified in its charter)*

Delaware  
*(State or other jurisdiction of*

*incorporation or organization)*

13-2614959  
*(I.R.S. Employer*

*Identification No.)*

One Wall Street

New York, New York 10286

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

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

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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 ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

Yes ☐ No ☒

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

| <u>Class</u>                   |
|--------------------------------|
| Common Stock, \$0.01 par value |

| <u>Outstanding as of</u> |
|--------------------------|
| <u>Sept. 30, 2008</u>    |
| 1,147,566,554            |

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**THE BANK OF NEW YORK MELLON CORPORATION**

**THIRD QUARTER 2008 FORM 10-Q**

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|                                                                                                                                                              | Quarter ended     |                  |                   | Nine months ended |                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|-------------------|-------------------|----------------------------------|
|                                                                                                                                                              | Sept. 30,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2007 | Sept. 30,<br>2008 | Sept. 30,<br>2007 <sup>(a)</sup> |
| <i>(dollar amounts in millions, except per share amounts and unless otherwise noted; common shares in thousands)</i>                                         |                   |                  |                   |                   |                                  |
| <b>Reported results</b>                                                                                                                                      |                   |                  |                   |                   |                                  |
| Net income                                                                                                                                                   | \$ 303            | \$ 309           | \$ 640            | \$ 1,358          | \$ 1,519                         |
| Basic EPS                                                                                                                                                    | 0.27              | 0.27             | 0.57              | 1.19              | 1.78                             |
| Diluted EPS                                                                                                                                                  | 0.26              | 0.27             | 0.56              | 1.18              | 1.76                             |
| <b>Continuing operations:</b>                                                                                                                                |                   |                  |                   |                   |                                  |
| Fee and other revenue                                                                                                                                        | \$ 2,923          | \$ 2,982         | \$ 2,931          | \$ 8,885          | \$ 5,986                         |
| Net interest revenue                                                                                                                                         | 703               | 411              | 669               | 1,881             | 1,548                            |
| Total revenue                                                                                                                                                | \$ 3,626          | \$ 3,393         | \$ 3,600          | \$ 10,766         | \$ 7,534                         |
| Income from continuing operations                                                                                                                            | \$ 305            | \$ 302           | \$ 642            | \$ 1,356          | \$ 1,527                         |
| EPS from continuing operations:                                                                                                                              |                   |                  |                   |                   |                                  |
| Basic                                                                                                                                                        | \$ 0.27           | \$ 0.27          | \$ 0.57           | \$ 1.19           | \$ 1.79                          |
| Diluted                                                                                                                                                      | 0.26              | 0.26             | 0.56              | 1.18              | 1.77                             |
| Diluted excluding merger and integration ( M&I ) expenses and SILO/LILO/tax settlements <sup>(b)</sup>                                                       | 0.35              | 0.67             | 0.67              | 1.73              | 1.96                             |
| Diluted excluding M&I expenses, SILO/LILO/tax settlements and support agreement charges <sup>(b)</sup>                                                       | 0.72              | 0.67             | 0.67              | 2.11              | 1.96                             |
| Diluted excluding M&I expenses, SILO/LILO/tax settlements, support agreement charges and intangible amortization <sup>(b)</sup>                              | 0.79              | 0.74             | 0.75              | 2.31              | 2.10                             |
| Return on tangible common equity (annualized)                                                                                                                | 19.0%             | 18.5%            | 33.2%             | 25.0%             | 28.4%                            |
| Return on tangible common equity excluding M&I expenses, SILO/LILO/tax settlements and support agreement charges (annualized) <sup>(b)</sup>                 | 45.5%             | 41.2%            | 39.0%             | 42.0%             | 31.3%                            |
| Return on common equity (annualized)                                                                                                                         | 4.3%              | 4.3%             | 8.9%              | 6.3%              | 11.8%                            |
| Return on common equity excluding M&I expenses, intangible amortization, SILO/LILO/tax settlements and support agreement charges (annualized) <sup>(b)</sup> | 12.9%             | 11.9%            | 11.8%             | 12.4%             | 14.1%                            |
| Fee and other revenue as a percentage of total revenue (FTE) <sup>(c)</sup>                                                                                  | 81%               | 88%              | 81%               | 82%               | 79%                              |
| Annualized fee revenue per employee (based on average headcount) (in thousands)                                                                              | \$ 285            | \$ 294           | \$ 291            | \$ 289            | \$ 279                           |
| Non-U.S. percent of revenue (excluding the SILO/LILO charges) (FTE)                                                                                          | 34%               | 35%              | 30%               | 34%               | 31%                              |
| Pre-tax operating margin (FTE)                                                                                                                               | 8%                | 18%              | 25%               | 19%               | 29%                              |
| Pre-tax operating margin (FTE) excluding M&I expenses, intangible amortization, SILO/LILO/tax settlements and support agreement charges <sup>(b)</sup>       | 36%               | 34%              | 35%               | 35%               | 36%                              |
| Net interest revenue (FTE)                                                                                                                                   | \$ 708            | \$ 415           | \$ 674            | \$ 1,896          | \$ 1,557                         |
| Net interest margin (FTE) <sup>(c)</sup>                                                                                                                     | 1.96%             | 1.16%            | 2.02%             | 1.65%             | 2.05%                            |
| Assets under management (in billions)                                                                                                                        | \$ 1,067          | \$ 1,113         | \$ 1,106          | \$ 1,067          | \$ 1,106                         |
| Assets under custody and administration (in trillions)                                                                                                       | \$ 22.4           | \$ 23.0          | \$ 22.7           | \$ 22.4           | \$ 22.7                          |
| Equity securities                                                                                                                                            | 28%               | 25%              | 33%               | 28%               | 33%                              |
| Fixed income securities                                                                                                                                      | 72%               | 75%              | 67%               | 72%               | 67%                              |
| Cross-border assets (in trillions)                                                                                                                           | \$ 8.9            | \$ 10.3          | \$ 9.6            | \$ 8.9            | \$ 9.6                           |
| Market value of securities on loan (in billions)                                                                                                             | \$ 470            | \$ 588           | \$ 663            | \$ 470            | \$ 663                           |
| Average common shares and equivalents outstanding (in thousands):                                                                                            |                   |                  |                   |                   |                                  |
| Basic                                                                                                                                                        | 1,143,445         | 1,135,153        | 1,128,734         | 1,141,424         | 852,223                          |
| Diluted                                                                                                                                                      | 1,151,469         | 1,146,886        | 1,141,145         | 1,152,444         | 862,877                          |

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### Consolidated Financial Highlights (unaudited) (continued)

#### The Bank of New York Mellon Corporation

| <i>(dollar amounts in millions, except per share amounts and unless otherwise noted; common shares in thousands )</i> | Sept. 30,<br>2008 | Quarter ended<br>June 30,<br>2008 | Sept. 30,<br>2007 | Nine months ended<br>Sept. 30,<br>2008 | Sept. 30,<br>2007 <i>(a)</i> |
|-----------------------------------------------------------------------------------------------------------------------|-------------------|-----------------------------------|-------------------|----------------------------------------|------------------------------|
| <b>Capital ratios</b>                                                                                                 |                   |                                   |                   |                                        |                              |
| Tier I capital ratio                                                                                                  | 9.34%             | 9.33%                             | 9.12%             | 9.34%                                  | 9.12%                        |
| Total (Tier I plus Tier II capital ratio)                                                                             | 12.84%            | 12.90%                            | 13.05%            | 12.84%                                 | 13.05%                       |
| Tangible common equity to assets ratio <i>(d) (e)</i>                                                                 | 3.88%             | 4.62%                             | 5.60%             | 3.88%                                  | 5.60%                        |
| Tangible common equity to average assets ratio <i>(d) (e)</i>                                                         | 4.41%             | 4.76%                             | 5.61%             | 4.36%                                  | 8.13%                        |
| Return on average assets <i>(annualized)</i>                                                                          | 0.61%             | 0.62%                             | 1.39%             | 0.91%                                  | 1.53%                        |
| <b>Selected average balances</b>                                                                                      |                   |                                   |                   |                                        |                              |
| Interest-earning assets                                                                                               | \$ 144,290        | \$ 144,255                        | \$ 133,521        | \$ 144,554                             | \$ 101,251                   |
| Total assets                                                                                                          | \$ 198,827        | \$ 195,997                        | \$ 183,828        | \$ 198,539                             | \$ 133,699                   |
| Interest-bearing deposits                                                                                             | \$ 86,853         | \$ 94,785                         | \$ 80,870         | \$ 91,489                              | \$ 59,582                    |
| Noninterest-bearing deposits                                                                                          | \$ 33,462         | \$ 24,822                         | \$ 26,466         | \$ 28,194                              | \$ 18,944                    |
| Shareholders' equity                                                                                                  | \$ 27,996         | \$ 28,507                         | \$ 28,669         | \$ 28,682                              | \$ 17,234                    |
| <b>Other</b>                                                                                                          |                   |                                   |                   |                                        |                              |
| Employees                                                                                                             | 43,200            | 43,100                            | 40,600            | 43,200                                 | 40,600                       |
| Dividends per share                                                                                                   | \$ 0.24           | \$ 0.24                           | \$ 0.24           | \$ 0.72                                | \$ 0.71                      |
| Dividend yield <i>(annualized)</i>                                                                                    | 2.9%              | 2.5%                              | 2.2%              | 2.9%                                   | 2.2%                         |
| Closing common stock price per share                                                                                  | \$ 32.58          | \$ 37.83                          | \$ 44.14          | \$ 32.58                               | \$ 44.14                     |
| Market capitalization                                                                                                 | \$ 37,388         | \$ 43,356                         | \$ 50,266         | \$ 37,388                              | \$ 50,266                    |
| Book value per common share                                                                                           | \$ 23.97          | \$ 24.93                          | \$ 25.43          | \$ 23.97                               | \$ 25.43                     |
| Tangible book value per common share                                                                                  | \$ 6.65           | \$ 7.19                           | \$ 7.95           | \$ 6.65                                | \$ 7.95                      |
| Period-end shares outstanding <i>(in thousands)</i>                                                                   | 1,147,567         | 1,146,070                         | 1,138,682         | 1,147,567                              | 1,138,682                    |

- (a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.
- (b) See Supplemental information Explanation of non-GAAP financial measures.
- (c) Excluding the SILO/LILO charges: fee and other revenue as a percentage of total revenue (FTE) was 78% in the third quarter of 2008, 79% in the second quarter of 2008 and 79% in the first nine months of 2008; and the net interest margin was 2.27% in the third quarter of 2008, 2.21% in the second quarter of 2008 and 2.21% in the first nine months of 2008.
- (d) Common equity less goodwill and intangible assets plus the benefit of the deferred tax liability associated with non-tax deductible intangible assets of \$1.91 billion, \$1.96 billion, \$1.95 billion, \$1.91 billion and \$1.95 billion, respectively, and the deferred tax liability associated with tax deductible goodwill of \$577 million, \$548 million, \$468 million, \$577 million and \$468 million, respectively, divided by total assets less goodwill and intangible assets. Total assets were \$268 billion at Sept. 30, 2008, compared with \$201 billion at June 30, 2008 and \$184 billion at Sept. 30, 2007.
- (e) At Sept. 30, 2008, total and average assets were adjusted for the deposits placed with the Federal Reserve of \$37.9 billion and other short-term investments - U.S. government-backed commercial paper of \$10.9 billion. The average impact of these assets was \$3.5 billion in the third quarter of 2008 and \$320 million for the nine months of 2008. Both of these sets of assets are assigned a zero risk-weighting by bank regulators.

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### **Part I Financial Information**

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

### **General**

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

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

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

#### *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.

Throughout this Form 10-Q, certain measures, which are noted, exclude certain items. We believe the presentation of this information enhances investors' understanding of period-to-period results. In addition, these measures reflect the principal basis on which our management monitors financial performance. See Supplemental information's explanation of non-GAAP financial measures.

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 2008 reflect The Bank of New York Mellon Corporation. Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

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.

### **Overview**

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

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The Company's businesses benefit from the global growth in financial assets. 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 peer companies.

Key components of this strategy include: providing superior 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.

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

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

Demand for our products and services is driven by market and demographic trends in the markets in which we compete. These trends include: growth in worldwide retirement and financial assets; the growth and concentration of the wealth segments; global growth in assets managed by financial institutions; and the globalization of the investment process.

Many of our products complement one another.

We are able to leverage sales, distribution and technology across our businesses, benefiting our clients and shareholders.

The revenue generated by our businesses is principally fee-based.

Our businesses, relative to traditional banks, generally do not require as much capital for growth.

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 are a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. At Sept. 30, 2008, we had \$22.4 trillion in assets under custody and administration, approximately \$1.1 trillion in assets under management and service approximately \$12 trillion in outstanding debt.

### *Strategic actions impacting third quarter 2008 and year-to-date 2008 financial results*

In the second quarter of 2008, we sold Mellon 1<sup>st</sup> Business Bank, N. A. ( M1BB ). This sale reduced loan and deposit levels by \$1.1 billion and \$2.8 billion, respectively.

In the first quarter of 2008, we acquired ARX Capital Management ( ARX ), a leading Brazilian asset management business. We also sold the B-Trade and G-Trade execution businesses. These businesses have historically contributed approximately \$50-60 million of revenue and \$10-15 million of pre-tax income on a quarterly basis.

In the fourth quarter of 2007, we completed the acquisition of the remaining 50% interest in ABN AMRO Mellon Global Securities Services B.V. (now known as BNY Mellon Asset Servicing, B.V.) and we consolidated the assets of our bank-sponsored conduit, Three Rivers Funding Corporation ( TRFC ).

On July 1, 2007, The Bank of New York Company, Inc. ( The Bank of New York ) and Mellon Financial Corporation ( Mellon Financial ) merged into The Bank of New York Mellon Corporation (together with its consolidated subsidiaries, the Company ), with the Company being the surviving entity.

### *Highlights of third quarter 2008 results*

We reported third quarter net income of \$303 million, and diluted earnings per share of \$0.26, and income from continuing operations of \$305 million and diluted earnings per share of \$0.26. This compares to net income of \$640 million, or \$0.56 per share, and income from continuing operations of \$642 million, or \$0.56 per share, in the third quarter of 2007 and net income of \$309 million, or \$0.27 per share, and income from continuing operations of \$302 million, or \$0.26 per share, in the second quarter of 2008. The third quarter of 2008 included: a charge relating to support agreements (described below) of \$726 million (pre-tax), or \$0.37 per share; a charge relating to certain structured lease transactions ( SILOs/LILOs ) of \$112 million (pre-tax) as well as the settlement of several audit cycles, with a combined impact of \$0.03 per share; and M&I expenses of \$111 million (pre-tax), or \$0.06 per share. The third quarter of 2007 included M&I expenses of \$218 million (pre-tax), or \$0.11 per share. The second quarter of 2008 included a charge relating to SILOs of \$377 million (pre-tax), or \$0.33 per share, as well as M&I expenses of \$149 million (pre-tax), or \$0.08 per share. Excluding these amounts, earnings per share from continuing operations were \$0.72 in the third quarter of 2008, \$0.67 in the third quarter of 2007 and \$0.67 in the second quarter of 2008.



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Adjusting for the impact of the charge for the support agreements, the SILO/LILO/tax settlement, M&I expenses and intangible amortization (\$120 million pre-tax), diluted earnings per share for the third quarter of 2008 were \$0.79, which compares to \$0.75 a year ago and \$0.74 sequentially. See Supplemental information - Explanation of non-GAAP financial measures.

The results for the third quarter of 2008 included net pre-tax costs associated with the write-down of certain investments in our securities portfolio of \$162 million compared with write-downs of \$9 million in the third quarter of 2007 and \$152 million in the second quarter of 2008.

Performance highlights for the third quarter of 2008 included:

Assets under management totaled \$1.07 trillion at Sept. 30, 2008 compared with \$1.11 trillion at Sept. 30, 2007. The decrease resulted from market depreciation and the impact of a stronger U.S. dollar, partially offset by net positive flows. Assets under custody and administration totaled \$22.4 trillion at Sept. 30, 2008 compared with \$22.7 trillion at Sept. 30, 2007 as the benefit of new business conversions was offset by weaker market values and the impact of a stronger U.S. dollar.

Asset and wealth management fees totaled \$792 million in the third quarter of 2008 compared with \$854 million in the third quarter of 2007. The decrease reflects global weakness in market values and net long-term outflows, partially offset by inflows of money market assets.

Asset servicing revenue totaled \$803 million in the third quarter of 2008 compared with \$720 million in the third quarter of 2007. The increase was primarily due to higher securities lending revenue, net new business and the fourth quarter 2007 acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V.

Issuer services revenue totaled \$477 million in the third quarter of 2008 compared with \$436 million in the third quarter of 2007. The increase primarily reflects growth in Depositary Receipts, Corporate Trust and Shareowner Services fees.

Clearing and execution services fees totaled \$262 million compared with \$304 million in the third quarter of 2007. The decrease primarily reflects the sale of the B-Trade and

G-Trade execution businesses in the first quarter of 2008, partially offset by growth in trading activity along with continued growth in money market mutual fund fees.

Foreign exchange and other trading activities revenue totaled a record \$385 million in the third quarter of 2008 compared with \$238 million in the third quarter of 2007. The increase primarily reflects the benefit of increased market volatility and higher client volumes.

Securities losses totaled \$162 million in the third quarter of 2008 compared with a loss of \$9 million in the third quarter of 2007. The loss in the third quarter of 2008 included a \$29 million loss related to Alt-A securities, a \$42 million loss related to asset-backed securities (ABS) collateralized debt obligations (CDOs), a \$12 million loss related to prime mortgage securities, a \$12 million loss related to subprime mortgage securities, a \$10 million loss related to securities backed by home equity lines of credit (HELOC) and \$57 million of losses related to structured investment vehicles (SIVs) and other securities.

In the third quarter of 2008, we settled several prior tax audit cycles. As part of the tax settlements, we also accepted the Internal Revenue Service (IRS) uniform SILO/LILO settlement offer announced on Aug. 6, 2008, resulting in a pre-tax charge of \$112 million. The combined after-tax charge of these settlements was \$30 million. In the second quarter of 2008, we recorded a \$380 million after-tax charge related to the SILO transactions covered by this settlement.

Net interest revenue totaled \$703 million in the third quarter of 2008 compared with \$669 million in the third quarter of 2007. The increase was primarily due to wider spreads on investment securities and a higher level of average interest-earning assets, partially offset by the SILO/LILO charges recorded in the third quarter of 2008.

Noninterest expense totaled \$3.3 billion in the third quarter of 2008 compared with \$2.7 billion in the third quarter of 2007. The increase resulted from the support agreement charges described below (\$726 million), the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V., and higher professional, legal and other purchased services. These increases were partially offset by lower M&I expenses, the benefit of merger-related expense

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synergies generated in the third quarter of 2008, lower compensation incentives and the sale of the B-Trade and G-Trade execution businesses to BNY ConvergeEx Group, LLC ( BNY ConvergeEx ) in the first quarter of 2008.

The unrealized net of tax loss on our securities portfolio was \$2.8 billion at Sept. 30, 2008 compared with \$1.8 billion at June 30, 2008.

The increase primarily resulted from wider credit spreads.

The Tier I capital ratio at Sept. 30, 2008 was 9.34% compared with 9.32% at Dec. 31, 2007. The Company had total assets of \$268 billion at Sept. 30, 2008 compared with \$198 billion at Dec. 31, 2007. The increase in total assets reflects the record level of client deposits generated by the market turmoil that began in mid-September 2008. Noninterest-bearing deposits were \$82 billion at Sept. 30, 2008 compared with \$32 billion at Dec. 31, 2007. At Sept. 30, 2008, we maintained a highly liquid balance sheet by placing an increased level of deposits with the Federal Reserve and in overnight deposits with large global banks.

### **Impact of the market disruption on our business**

The recent events in the global markets could have a significant impact on our results of operation. The following discusses the areas of our business that are likely to be impacted by the current market environment, as well as recent events that impact the Company.

#### *Impact on our business*

Recent market volatility associated with the performance of global equity indices and the disruption in the fixed income securities market, continue to impact our Asset and Wealth Management and Securities Servicing businesses.

Our Asset and Wealth Management businesses have been negatively impacted by global weakness in market values. Over the twelve-month period ended Sept. 30, 2008, the S&P 500 and the MSCI EAFE indices declined 24% and 32%, respectively, resulting in lower performance fees, a decline in investment income related to seed capital investments as well as lower asset and wealth management fee revenue as lower market values offset the impact of new business wins.

In contrast, current market conditions have favorably impacted our processing and capital markets related fees in our Securities Servicing businesses, as well as our net interest revenue. Market volatility has resulted in an increased volume of activity impacting foreign exchange and clearing and has led to a widening of spreads associated with securities lending, foreign exchange and net interest revenue. A lower risk appetite by investors and our institutional clients has led to an increase in deposit levels. It is uncertain how long we will continue to benefit from increased volatility, volumes and deposit levels.

The ongoing disruption in the fixed income securities market has resulted in additional impairment charges, as well as an increase in unrealized securities losses. In addition, market conditions have resulted in a reduction in the volume in new fixed income securities issuances, which has impacted the level of new business in our Corporate Trust business. However, the disruption has also resulted in new product opportunities.

#### *Support Agreements*

During the third quarter of 2008, the Company elected to support its clients invested in money market mutual funds, cash sweep funds and similar collective funds, managed by our affiliates, impacted by the Lehman Brothers Holdings, Inc. ( Lehman ) bankruptcy. The support agreements relate to five commingled cash funds used primarily for overnight custody cash sweeps, four Dreyfus money market funds and various securities lending customers.

These voluntary agreements are in addition to agreements that existed at June 30, 2008 covering SIV exposure in two short-term net asset value funds and the support agreements covering securities related to Whistle Jacket Capital/White Pine Financial, LLC to a commingled short-term net asset value fund. During the third quarter of 2008, we also offered to support certain clients holding auction rate securities in the Wealth Management and Treasury Services segments. These actions resulted in a \$726 million pre-tax, or \$0.37 per share, charge recorded in the third quarter of 2008. See page 53 for further information on support agreements.

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### *Asset-backed commercial paper liquidity facility program*

In September 2008, the Federal Reserve announced an Asset Backed Commercial Paper ( ABCP ) Money Market Mutual Fund ( MMMF ) Liquidity Facility program (the ABCP Program ).

Eligible borrowers under the ABCP Program include all U.S. depository institutions, U.S. bank holding companies, U.S. branches and agencies of foreign banks and broker-dealers. Eligible borrowers may borrow funds under the ABCP Program in order to fund the purchase of eligible ABCP from an MMMF. The MMMF must be a fund that qualifies as a money market mutual fund under Rule 2a-7 of The Investment Company Act of 1940, as amended (the 40 Act ). ABCP used for collateral in the ABCP Program must be rated no lower than A1, F1 or P1, U.S. dollar denominated and from a U.S. issuer. The ABCP Program, which began on Sept. 19, 2008, is currently scheduled to run through Jan. 30, 2009.

Borrowings under the ABCP Program are non-recourse. Further, the ABCP pledged under the ABCP Program receives a 0% risk weight for risk-based capital purposes and is excluded from average total consolidated assets for leverage capital purposes.

Subsidiaries of the Company purchased ABCP under the ABCP Program from MMMFs managed by the Company s subsidiaries, as well as funds managed by third parties. At Sept. 30, 2008, we held \$10.9 billion of assets and liabilities under the ABCP Program. The ABCP Program increased average assets by \$1.0 billion in the third quarter of 2008. These assets are recorded on the balance sheet as other short-term investments U.S. government-backed commercial paper. The liabilities are recorded as Borrowings from Federal Reserve related to asset-backed commercial paper.

### *Temporary Guarantee Program for Money Market Mutual Funds*

In late September 2008, the U.S. Treasury Department opened its Temporary Guarantee Program for Money Market Mutual Funds (the Temporary Guarantee Program ). The U.S. Treasury will guarantee the share price of any publicly-offered eligible money market fund that applies for and pays a fee to participate in the Temporary Guarantee Program. All money market funds that are structured within the confines of Rule 2a-7 of the 40 Act, maintain a stable share price of \$1.00, are

publicly offered and are registered with the Securities and Exchange Commission are eligible to participate in the Temporary Guarantee Program.

The Temporary Guarantee Program provides coverage to shareholders for amounts that they held in participating money market funds at the close of business on Sept. 19, 2008. The guarantee will be triggered if the market value of assets held in a participating fund falls below \$0.995, the fund s sponsor chooses not to maintain the \$1.00 share price, and the fund s board determines to liquidate the fund. The Temporary Guarantee Program is designed to address temporary dislocations in credit markets and will run through Dec. 18, 2008, after which the Secretary of the Treasury will review the need and terms for extending the Temporary Guarantee Program. If extended, it may be extended only up to Sept. 18, 2009, and continued insurance protection is contingent upon funds renewing their coverage and paying any additional required fee.

Each Dreyfus and BNY Mellon Funds Trust money market fund has entered into a Guarantee Agreement with the Department of the Treasury, which permits these funds to participate in the Treasury s Temporary Guarantee Program for Money Market Mutual Funds.

### *U.S. Treasury program investment in U.S. financial institutions*

On Oct. 14, 2008, the U.S. government announced the Troubled Asset Relief Program ( TARP ) Capital Purchase Program ( CPP ) authorized under the Emergency Economic Stabilization Act ( EESA ). The intention of this program is to encourage U.S. financial institutions to build capital, to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Initially, nine large financial institutions agreed to participate in the program. On Oct. 14, 2008, the Company announced that it would be part of the initial group of nine institutions in which the U.S. Treasury would purchase an equity stake. The Company agreed to issue and sell to the U.S. Treasury preferred stock and a warrant to purchase shares of common stock in accordance with the terms of the CPP for an aggregate purchase price of \$3 billion. As a result, on Oct. 28, 2008, we issued \$3 billion of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, and a warrant, as described below, to the U.S. Treasury. The Series B preferred stock will pay cumulative dividends at a rate



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of 5% per annum until the fifth anniversary of the date of the investment and thereafter at a rate of 9% per annum. Dividends will be payable quarterly in arrears on March 20, June 20, Sept. 20 and Dec. 20 of each year. The Series B preferred stock can only be redeemed within the first three years with the proceeds of at least \$750 million from one or more qualified equity offerings. After Dec. 20, 2011, the Series B preferred stock may be redeemed, in whole or in part, at any time at our option, at a price equal to 100% of the issue price plus any accrued and unpaid interest. Redemption of the Series B preferred stock at any time will be subject to the prior approval of the Federal Reserve.

Issuance of the Series B preferred shares places restrictions on our common stock dividend and repurchases of common stock. Prior to the earlier of (i) the third anniversary of the closing date or (ii) the date on which the Series B preferred stock is redeemed in whole or the U.S. Treasury has transferred all of the Series B preferred stock to unaffiliated third parties, the consent of the U.S. Treasury is required to:

Pay any dividend on our common stock other than regular quarterly dividends of not more than our current quarterly dividend of \$0.24 per share; or

Redeem, purchase or acquire any shares of common stock or other capital stock or other equity securities of any kind of the Company or any trust preferred securities issued by the Company or any affiliate except in connection with (i) any benefit plan in the ordinary course of business consistent with past practice; (ii) market-making, stabilization or customer facilitation transactions in the ordinary course or; (iii) acquisitions by the Company as trustees or custodians.

In addition, until such time as the U.S. Treasury ceases to own any debt or equity securities of the Company acquired pursuant to the Oct. 28, 2008 closing or exercise of the warrant described below, the Company must ensure that its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including so-called golden parachute, severance and employment agreements (collectively, *Benefit Plans*)) with respect to its senior executive officers (as defined in the EESA and regulations thereunder) comply with Section 111(b) of the EESA as implemented by any guidance and regulations issued and in effect on Oct. 28, 2008.

The Series B preferred stock qualifies as Tier I capital. Including the Series B preferred stock, the Tier I capital ratio at Sept. 30, 2008 would have been approximately 12%.

In connection with the issuance of the Series B preferred stock, we issued a warrant to purchase 14,516,129 shares of our common stock to the U.S. Treasury. The warrant has a 10-year term and an exercise price of \$31.00 per share. The warrant is immediately exercisable, in whole or in part. Exercise must be on a cashless basis unless the Company agrees to a cash exercise. However, the U.S. Treasury has agreed that it will not transfer or exercise the warrant for more than 50% of the shares covered until the earlier of (i) the date on which we receive aggregate gross proceeds of not less than \$3 billion from one or more qualified equity offerings, and (ii) Dec. 31, 2009. If the Company completes one or more qualified equity offerings on or prior to Dec. 31, 2009 that results in the Company receiving aggregate gross proceeds of not less than \$3 billion, the number of shares of common stock originally covered by the warrant will be reduced by one-half. The U.S. Treasury will not exercise voting power associated with any shares underlying the warrant. The warrant will be classified as permanent equity under GAAP.

The issuance of the Series B preferred stock is expected to reduce fully diluted earnings per share by approximately \$0.02 in the fourth quarter of 2008 and approximately \$0.10 in 2009.

### *FDIC Temporary Liquidity Guarantee Program*

On Oct. 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program. This new program will:

Guarantee certain types of senior unsecured debt issued by most U.S. bank holding companies, U.S. savings and loan holding companies and FDIC-insured depository institutions between Oct. 14, 2008 and the earlier of (i) June 30, 2009 and (if applicable) (ii) the date the FDIC-insured bank elects not to participate in the program a decision that must be made no later than Dec. 5, 2008, including promissory notes, commercial paper and any unsecured portion of secured debt. Prepayment of debt not guaranteed by the FDIC and replacement with FDIC-guaranteed debt will not be allowed. The amount of debt covered by the guarantee may not exceed 125 percent of the par value of the issuing entity's senior unsecured



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debt, excluding debt extended to affiliates or institution-affiliated parties, outstanding as of Sept. 30, 2008, that was scheduled to mature before June 30, 2009. For eligible senior unsecured debt, an annualized fee will be paid to the FDIC equal to 75 basis points multiplied by the amount of debt guaranteed under this program. For FDIC-guaranteed debt issued on or before June 30, 2009, the guarantee will terminate on the earlier of the maturity of the debt or June 30, 2012.

Provide full FDIC deposit insurance coverage for funds held by FDIC-insured banks in non-interest-bearing transaction deposit accounts at FDIC-insured depository institutions until Dec. 31, 2009. For such accounts, a 10 basis point surcharge on the institution's current assessment rate will be applied to deposits not otherwise covered by the existing deposit insurance limit of \$250,000. The FDIC published for comment an Interim Rule Implementing the Temporary Liquidity Guarantee Program in the Federal Register on Oct. 29, 2008. The comment period ends on Nov. 13, 2008.

### *Money Market Investor Funding Facility*

On Oct. 21, 2008, the Federal Reserve announced the creation of the Money Market Investor Funding Facility (MMIFF), which will support a private-sector initiative designed to provide liquidity to U.S. money market investors.

Under the MMIFF, the Federal Reserve Bank of New York will provide senior secured financing to a series of special purpose

vehicles (SPVs) that will purchase high-quality money market instruments maturing in 90 days or less from U.S. money market funds. Eligible assets will include U.S. dollar-denominated certificates of deposit and commercial paper issued by highly rated financial institutions and having remaining maturities of 90 days or less. Eligible investors will include U.S. money market mutual funds and over time may include other U.S. money market investors.

The Federal Reserve Board will make an additional announcement when the start date of the MMIFF has been determined. The SPVs may begin purchasing eligible assets once the start date is known and will cease purchasing assets on April 30, 2009, unless the Federal Reserve Board extends the MMIFF.

The Company's affiliated money market mutual funds may participate in this facility once it commences.

### *BNY Mellon chosen to assist the U.S. Department of the Treasury*

In October 2008, the Company was selected by the U.S. Department of the Treasury as the sole provider of a broad range of custodial and trustee services to support the government's TARP Program.

The U.S. Treasury Department has hired us to provide the accounting of record for its portfolio, hold all cash and assets in the portfolio, provide for pricing and asset valuation services and assist with other related services. We will serve as auction manager and conduct reverse auctions for the troubled assets.

Our support will be administered through our Corporate Trust and Asset Servicing businesses.

**Table of Contents****Fee and other revenue**

| Fee and other revenue                                                               |          |          |          |                       |      |                               | YTD08    |              |
|-------------------------------------------------------------------------------------|----------|----------|----------|-----------------------|------|-------------------------------|----------|--------------|
| (dollars in millions unless otherwise noted)                                        | 3Q08     | 2Q08     | 3Q07     | 3Q08 vs.<br>3Q07 2Q08 |      | Year-to-date<br>2008 2007 (a) |          | vs.<br>YTD07 |
| Securities servicing fees:                                                          |          |          |          |                       |      |                               |          |              |
| Asset servicing                                                                     | \$ 803   | \$ 864   | \$ 720   | 12%                   | (7)% | \$ 2,566                      | \$ 1,540 | 67%          |
| Issuer services                                                                     | 477      | 444      | 436      | 9                     | 7    | 1,297                         | 1,122    | 16           |
| Clearing and execution services                                                     | 262      | 270      | 304      | (14)                  | (3)  | 799                           | 877      | (9)          |
| Total securities servicing fees                                                     | 1,542    | 1,578    | 1,460    | 6                     | (2)  | 4,662                         | 3,539    | 32           |
| Asset and wealth management fees                                                    | 792      | 844      | 854      | (7)                   | (6)  | 2,478                         | 1,173    | 111          |
| Performance fees                                                                    | 3        | 16       | (3)      | N/M                   | N/M  | 39                            | 32       | 22           |
| Foreign exchange and other trading activities                                       | 385      | 308      | 238      | 62                    | 25   | 952                           | 482      | 98           |
| Treasury services                                                                   | 130      | 130      | 122      | 7                     | -    | 384                           | 227      | 69           |
| Distribution and servicing                                                          | 107      | 110      | 95       | 13                    | (3)  | 315                           | 99       | 218          |
| Financing-related fees                                                              | 45       | 50       | 51       | (12)                  | (10) | 143                           | 164      | (13)         |
| Investment income                                                                   | 17       | 45       | 22       | (23)                  | (62) | 85                            | 97       | (12)         |
| Other                                                                               | 64       | 53       | 101      | (37)                  | 21   | 214                           | 182      | 18           |
| Total fee revenue (non-FTE)                                                         | 3,085    | 3,134    | 2,940    | 5                     | (2)  | 9,272                         | 5,995    | 55           |
| Securities gains (losses)                                                           | (162)    | (152)    | (9)      | N/M                   | N/M  | (387)                         | (9)      | N/M          |
| Total fee and other revenue (non-FTE)                                               | \$ 2,923 | \$ 2,982 | \$ 2,931 | -%                    | (2)% | \$ 8,885                      | \$ 5,986 | 48%          |
| Fee and other revenue as a percentage of total revenue (FTE)                        | 81% (b)  | 88% (b)  | 81%      |                       |      | 82%                           | 79%      |              |
| Market value of assets under management at period-end (in billions)                 | \$ 1,067 | \$ 1,113 | \$ 1,106 | (4)%                  | (4)% | \$ 1,067                      | \$ 1,106 | (4)%         |
| Market value of assets under custody or administration at period-end (in trillions) | \$ 22.4  | \$ 23.0  | \$ 22.7  | (1)%                  | (3)% | \$ 22.4                       | \$ 22.7  | (1)%         |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

(b) Excluding the SILO/LILO charges of \$112 million recorded in the third quarter of 2008 and \$377 million of SILO charges recorded in the second quarter of 2008, fee and other revenue as a percentage of total revenue (FTE) was 78% in the third quarter of 2008, 79% in the second quarter of 2008 and 79% in the first nine months of 2008.

N/M Not meaningful.

**Fee and other revenue**

The results of many of our businesses are influenced by client and market activities that vary by quarter.

Fee revenue increased \$145 million versus the year-ago quarter primarily due to an increase in foreign exchange and other trading activities, securities lending revenue (included in asset servicing) and new business, partially offset by a decrease in asset and wealth management fees, clearing and execution services fees and other revenue. Sequentially, fee revenue decreased \$49 million reflecting lower asset and wealth management fees and investment income, as well as normal seasonal decreases in securities lending revenue and clearing and execution services fees. These decreases were partially offset by higher foreign exchange and other

trading activities revenue and increased corporate actions in our Depositary Receipts business.

*Securities servicing fees*

Securities servicing fees were impacted by the following, compared with the third quarter of 2007:

higher securities lending revenue, strong new business activity and the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V. in the fourth quarter of 2007;

growth in Depositary Receipts, Corporate Trust and Shareowner Services fees; and

a decrease in clearing and execution services resulting from the sale of the execution businesses in the first quarter of 2008.

Securities servicing fees were down sequentially reflecting seasonal decreases in securities lending revenue and clearing and execution services fees, partially offset by increases in Depositary Receipts, Corporate Trust and Shareowner Services fees. See

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the Institutional Services Sector in Business segments review for additional details.

### *Asset and wealth management fees*

Asset and wealth management fees decreased from the third quarter of 2007, and sequentially, as net new business was more than offset by global weakness in market values. 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 \$1.07 trillion at Sept. 30, 2008, compared with \$1.11 trillion at Sept. 30, 2007 and \$1.11 trillion at June 30, 2008. The decrease compared with both prior periods resulted from market depreciation, the impact of a stronger U.S. dollar and long-term outflows, partially offset by 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 third quarter of 2007 and decreased \$13 million compared with the second quarter of 2008. The decrease compared with the second quarter of 2008 was primarily due to a lower level of fees generated from certain equity and alternative strategies.

### *Foreign exchange and other trading activities*

Foreign exchange and other trading activities revenue, which is reported primarily in the Asset Servicing segment, increased by \$147 million, or 62%, to a record \$385 million compared with the third quarter of 2007, and increased 25% (unannualized) compared with the second quarter of 2008. The increases compared to both periods reflect the benefit of increased volatility and higher client volumes, as well as the higher value of the credit default swap book (used to economically hedge certain loan exposures).

### *Treasury services*

Treasury services fees, which are primarily reported in the Treasury Services segment, include fees related to funds transfer, cash management and liquidity management. Treasury services fees increased \$8 million from the third quarter of 2007 reflecting higher processing volumes in global payment and cash management.

### *Distribution and servicing fees*

Distribution and servicing fees earned from mutual funds are primarily based on average assets in the funds and the sales of funds that we manage or administer and are primarily reported in the Asset Management segment. These fees, which include 12b-1 fees, fluctuate with the overall level of net sales, the relative mix of sales between share classes and the funds' market values.

The \$12 million increase in distribution and servicing fee revenue in the third quarter of 2008 compared with the third quarter of 2007 primarily reflects money market inflows. The \$3 million decrease compared with the second quarter of 2008 reflects a high level of redemptions in certain international funds in the second quarter of 2008, primarily offset by money market inflows. The impact of distribution and servicing fees on income in any one period can be more than offset by distribution and servicing expense paid to other financial intermediaries to cover their costs for distribution and servicing of mutual funds. Distribution and servicing expense is recorded as noninterest expense on the income statement.

### *Financing-related fees*

Financing-related fees, which are primarily reported in the Treasury Services segment, include capital markets fees, loan commitment fees and credit-related trade fees. Financing-related fees decreased \$6 million from the third quarter of 2007 and \$5 million sequentially. The decrease from both periods reflects lower leveraged loan portfolio fees and lower credit-related activities consistent with our strategic direction.

### *Investment income*

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Investment income, which is primarily reported in the Other and Asset Management segments, includes the gains and losses on private equity investments

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and seed capital investments, income from insurance contracts, and lease residual gains and losses. The decrease from both periods resulted primarily from the change in market value of seed capital investments associated with our Asset Management business. Seed capital revenue was a loss of \$29 million in the third quarter of 2008 compared with revenue of \$3 million in the second quarter of 2008 and a loss of \$32 million in the third quarter of 2007. Revenue from insurance contracts was \$37 million in the third quarter of 2008 compared with \$39 million in the second quarter of 2008 and \$35 million in the third quarter of 2007. Private equity investment income was \$8 million in the third quarter of 2008, up from \$3 million in the second quarter of 2008 and down from \$17 million in the third quarter of 2007.

### Other revenue

Other revenue is comprised of asset-related gains, foreign currency translation gains, equity investment income, expense

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

Other revenue decreased compared to the third quarter of 2007 reflecting the 3Q07 settlement received for the early termination of a contract associated with the clearing business (\$28 million) and lower expense reimbursements related to the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V., partially offset by higher asset-related gains. The breakdown of other revenue categories is shown in the following table:

| Other revenue<br>(in millions)             | 3Q08  | 2Q08  | 3Q07   | Year-to-date |                     |
|--------------------------------------------|-------|-------|--------|--------------|---------------------|
|                                            |       |       |        | 2008         | 2007 <sup>(a)</sup> |
| Asset-related gains (losses)               | \$ 24 | \$ 23 | \$ (5) | \$ 93        | \$ 4                |
| Foreign currency translation gains         | 19    | 4     | 5      | 36           | 6                   |
| Equity investment income                   | 9     | 13    | 13     | 34           | 38                  |
| Expense reimbursements from joint ventures | 9     | 8     | 31     | 26           | 31                  |
| Merchant card fees                         | 1     | 3     | 15     | 10           | 15                  |
| Net economic value payments                | -     | -     | 3      | 2            | 40                  |
| Other                                      | 2     | 2     | 39     | 13           | 48                  |
| Total other revenue                        | \$ 64 | \$ 53 | \$ 101 | \$ 214       | \$ 182              |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

### Securities gains (losses)

Securities losses totaled \$162 million in the third quarter of 2008 compared to losses of \$9 million in the third quarter of 2007 and losses of \$152 million in the second quarter of 2008. The losses in the third quarter of 2008 primarily resulted from write-downs related to various securities, including ABS CDOs (\$42 million), Alt-A securities (\$29 million), prime mortgage securities (\$12 million), subprime mortgage securities (\$12 million), HELOC securities (\$10 million), and other securities (\$57 million). The losses in the second quarter of 2008 primarily reflected write-downs related to Alt-A securities (\$72 million), ABS CDOs (\$50 million) and HELOC securities (\$30 million). See the Consolidated Balance Sheet Review for further information on the investment securities portfolio.

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

Fee revenue for the first nine months of 2008 totaled \$9.3 billion, an increase of 55% compared with the first nine months of 2007. This increase primarily reflects the merger with Mellon Financial, higher securities servicing fees and foreign exchange and other trading activities. The increase in securities servicing fees reflects strong securities lending revenue and strong new business activity, partially offset by lower clearing and execution services revenue as a result of the sale of the B-Trade and G-Trade execution businesses. Foreign exchange and other trading

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activities increased primarily due to the merger with Mellon Financial, the benefit of significant increases in currency volatility as well as higher client volumes.

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Securities losses of \$387 million in the first nine months of 2008 primarily reflect the previously-mentioned losses in the second and third quarters of 2008.

## Net interest revenue

| Net interest revenue                  | 3Q08 vs. |        |        |         |        | Year-to-date |                 | YTD08    |
|---------------------------------------|----------|--------|--------|---------|--------|--------------|-----------------|----------|
|                                       |          |        |        |         |        |              |                 | vs.      |
| (dollar amounts in millions)          | 3Q08     | 2Q08   | 3Q07   | 3Q07    | 2Q08   | 2008         | 2007 <i>(a)</i> | YTD07    |
| Net interest revenue (non-FTE)        | \$ 703   | \$ 411 | \$ 669 | 5%      | N/M%   | \$ 1,881     | \$ 1,548        | 22%      |
| Tax equivalent adjustment             | 5        | 4      | 5      | N/M     | N/M    | 15           | 9               | N/M      |
| Net interest revenue (FTE)            | 708      | 415    | 674    | 5       | N/M    | 1,896        | 1,557           | 22       |
| SILO/LILO charges                     | 112      | 377    | -      | N/M     | N/M    | 489          | -               | N/M      |
| Net interest revenue (FTE) - non-GAAP | \$ 820   | \$ 792 | \$ 674 | 22%     | 4%     | \$ 2,385     | \$ 1,557        | 53%      |
| Net interest margin (FTE)             | 1.96%    | 1.16%  | 2.02%  | (6) bps | 80 bps | 1.65%        | 2.05%           | (40) bps |
| Net interest margin (FTE) - non-GAAP  | 2.27     | 2.21   | 2.02   | 25      | 6      | 2.21         | 2.05            | 16       |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

N/M - Not meaningful.

bps - basis points.

Net interest revenue on an FTE basis totaled \$708 million in the third quarter of 2008 and included a \$112 million charge related to SILO/LILOs. Net interest revenue on an FTE basis totaled \$674 million in the third quarter of 2007 and \$415 million in the second quarter of 2008. The second quarter of 2008 also included a \$377 million charge related to SILOs. The net interest margin was 1.96% in the third quarter of 2008, compared with 2.02% in the third quarter of 2007 and 1.16% in the second quarter of 2008.

The increase in net interest revenue compared with the third quarter of 2007 reflects wider spreads on investment securities, a higher level of average interest-earning assets driven by an increase in noninterest-bearing deposits and the negative impact in the third quarter of 2007 of a required recalculation of the yield on leveraged leases under SFAS No. 13 for changes to New York state tax rates resulting from the merger with Mellon Financial (\$22 million), partially offset by the SILO/LILO settlement recorded in the third quarter of 2008. The increase in net interest revenue compared with the second quarter of 2008 primarily reflects the SILO charge recorded in the second quarter. Excluding the SILO/LILO charges, the sequential increase reflects a higher volume of noninterest-bearing deposits, partially offset by lower spreads on investment securities.

Average interest-earning assets were \$144 billion in the third quarter of 2008 unchanged from the second quarter of 2008 and an increase compared with \$134 billion in the third quarter of 2007. The increase in average interest-earning assets was driven by higher average noninterest-bearing deposits compared to the third quarter of 2007 as our Securities Servicing client base responded to continued market

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volatility by increasing their deposit levels with us. Most of the increase in noninterest-bearing deposits occurred in the second half of September 2008. These deposits were placed with either the Federal Reserve or in overnight deposits with large global banks.

The net interest margin decreased 6 basis points year-over-year and increased 80 basis points sequentially. The decrease from the year ago period primarily reflects the \$112 million third quarter 2008 SILO/LILO settlement. The sequential increase primarily reflects the \$377 million SILO charge in the second quarter of 2008. Excluding the SILO/LILO charges, the net interest margin increased 25 basis points compared with the third quarter of 2007 and 6 basis points compared with the second quarter of 2008. The year-over-year increase primarily reflects wider spreads on investment securities, while the sequential increase primarily reflects the higher volume of noninterest-bearing deposits.

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

Net interest revenue on an FTE basis totaled \$1.9 billion in the first nine months of 2008, an increase of 22% compared with \$1.6 billion in the first nine months of 2007 primarily due to the merger with Mellon Financial. The net interest margin was 1.65% in the first nine months of 2008 and 2.05% in the first nine months of 2007. The decrease in net interest margin was

primarily due to the SILO/LILO charges, partially offset by wider spreads on the investment securities portfolio. Excluding the SILO/LILO charges, net interest revenue (FTE) was \$2.4 billion, an increase of 53% compared with the first nine months of 2007 and the net interest margin was 2.21%, an increase of 16 basis points.

**Average Balances and Interest Rates**

|                                                                         | Sept. 30, 2008     |                     | Quarter ended<br>June 30, 2008 |                       | Sept. 30, 2007     |                  |
|-------------------------------------------------------------------------|--------------------|---------------------|--------------------------------|-----------------------|--------------------|------------------|
|                                                                         | Average<br>balance | Average<br>rates    | Average<br>balance             | Average<br>rates      | Average<br>balance | Average<br>rates |
| <i>(dollar amounts in millions)</i>                                     |                    |                     |                                |                       |                    |                  |
| <b>Assets</b>                                                           |                    |                     |                                |                       |                    |                  |
| Interest-earning assets:                                                |                    |                     |                                |                       |                    |                  |
| Interest-bearing deposits with banks (primarily foreign)                | \$ 43,999          | 3.90%               | \$ 43,361                      | 3.82%                 | \$ 34,461          | 4.83%            |
| Other short-term investments U.S. government-backed commercial paper    | 954                | 2.95                | -                              | -                     | -                  | -                |
| Federal funds sold and securities under resale agreements               | 7,029              | 1.97                | 6,744                          | 2.21                  | 5,504              | 5.26             |
| Margin loans                                                            | 5,764              | 3.27                | 5,802                          | 3.36                  | 5,293              | 6.29             |
| Non-margin loans:                                                       |                    |                     |                                |                       |                    |                  |
| Domestic offices                                                        | 27,480             | 1.81 <sup>(a)</sup> | 28,068                         | (1.56) <sup>(a)</sup> | 27,044             | 5.17             |
| Foreign offices                                                         | 13,739             | 3.71                | 13,281                         | 3.97                  | 13,180             | 5.50             |
| Total non-margin loans                                                  | 41,219             | 2.44 <sup>(a)</sup> | 41,349                         | 0.22 <sup>(a)</sup>   | 40,224             | 5.28             |
| Securities:                                                             |                    |                     |                                |                       |                    |                  |
| U.S. government obligations                                             | 679                | 3.03                | 552                            | 3.05                  | 401                | 4.59             |
| U.S. government agency obligations                                      | 11,542             | 4.30                | 11,098                         | 4.27                  | 11,671             | 5.56             |
| Obligations of states and political subdivisions                        | 722                | 7.39                | 676                            | 5.74                  | 734                | 6.55             |
| Other securities                                                        | 30,591             | 5.42                | 32,755                         | 5.22                  | 33,361             | 5.69             |
| Trading securities                                                      | 1,791              | 2.76                | 1,918                          | 3.74                  | 1,872              | 3.95             |
| Total securities                                                        | 45,325             | 5.03                | 46,999                         | 4.92                  | 48,039             | 5.60             |
| Total interest-earning assets                                           | 144,290            | 3.71 <sup>(a)</sup> | 144,255                        | 3.05 <sup>(a)</sup>   | 133,521            | 5.32             |
| Allowance for loan losses                                               | (355)              |                     | (310)                          |                       | (303)              |                  |
| Cash and due from banks                                                 | 7,835              |                     | 5,399                          |                       | 5,013              |                  |
| Other assets                                                            | 47,057             |                     | 46,653                         |                       | 45,597             |                  |
| Total assets                                                            | \$ 198,827         |                     | \$ 195,997                     |                       | \$ 183,828         |                  |
| <b>Liabilities and shareholders equity</b>                              |                    |                     |                                |                       |                    |                  |
| Interest-bearing liabilities:                                           |                    |                     |                                |                       |                    |                  |
| Money market rate accounts                                              | \$ 12,503          | 0.88%               | \$ 13,590                      | 0.96%                 | \$ 17,204          | 3.38%            |
| Savings                                                                 | 986                | 1.13                | 980                            | 1.74                  | 793                | 3.09             |
| Certificates of deposit of \$100,000 & over                             | 1,928              | 2.28                | 2,116                          | 2.71                  | 3,025              | 5.37             |
| Other time deposits                                                     | 5,505              | 1.96                | 6,458                          | 1.86                  | 1,392              | 6.32             |
| Foreign offices                                                         | 65,931             | 2.19                | 71,641                         | 2.22                  | 58,456             | 3.78             |
| Total interest-bearing deposits                                         | 86,853             | 1.98                | 94,785                         | 2.02                  | 80,870             | 3.79             |
| Federal funds purchased and securities sold under repurchase agreements | 5,334              | 1.18                | 4,338                          | 1.05                  | 4,655              | 4.29             |
| Other borrowed funds                                                    | 3,303              | 2.31                | 2,840                          | 3.21                  | 2,790              | 4.90             |

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|                                                 |            |                      |            |                      |            |       |
|-------------------------------------------------|------------|----------------------|------------|----------------------|------------|-------|
| Borrowings from Federal Reserve related to ABCP | 954        | 2.25                 | -          | -                    | -          | -     |
| Payables to customers and broker-dealers        | 5,910      | 1.19                 | 5,550      | 1.32                 | 5,316      | 3.54  |
| Long-term debt                                  | 15,993     | 3.62                 | 16,841     | 3.58                 | 14,767     | 5.47  |
| Total interest-bearing liabilities              | 118,347    | 2.14                 | 124,354    | 2.20                 | 108,398    | 4.06  |
| Total noninterest-bearing deposits              | 33,462     |                      | 24,822     |                      | 26,466     |       |
| Other liabilities                               | 19,022     |                      | 18,314     |                      | 20,295     |       |
| Total liabilities                               | 170,831    |                      | 167,490    |                      | 155,159    |       |
| Shareholders' equity                            | 27,996     |                      | 28,507     |                      | 28,669     |       |
| Total liabilities and shareholders' equity      | \$ 198,827 |                      | \$ 195,997 |                      | \$ 183,828 |       |
| Net interest margin - Taxable equivalent basis  |            | 1.96% <sup>(a)</sup> |            | 1.16% <sup>(a)</sup> |            | 2.02% |

(a) The third and second quarters of 2008 include the impact of the SILO/LILO charges. Excluding these charges, the domestic offices' non-margin loan rate would have been 3.44% and 3.82%, the total non-margin loan rate would have been 3.53% and 3.87%, the interest-earning assets rate would have been 4.02% and 4.10% and the net interest margin would have been 2.27% and 2.21% for the third and second quarters of 2008, respectively.

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

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**Table of Contents****Average Balances and Interest Rates (continued)**

|                                                                         | 2008            |                     | Year-to-date 2007 <sup>(a)</sup> |               |
|-------------------------------------------------------------------------|-----------------|---------------------|----------------------------------|---------------|
| (dollar amounts in millions)                                            | Average balance | Average rates       | Average balance                  | Average rates |
| <b>Assets</b>                                                           |                 |                     |                                  |               |
| Interest-earning assets:                                                |                 |                     |                                  |               |
| Interest-bearing deposits with banks (primarily foreign)                | \$ 42,014       | 3.99%               | \$ 22,932                        | 4.65%         |
| Other short-term investments U.S. government-backed commercial paper    | 320             | 2.95                | -                                | -             |
| Federal funds sold and securities under resale agreements               | 7,323           | 2.48                | 5,266                            | 5.24          |
| Margin loans                                                            | 5,608           | 3.67                | 5,418                            | 6.31          |
| Non-margin loans:                                                       |                 |                     |                                  |               |
| Domestic offices                                                        | 28,109          | 1.07 <sup>(b)</sup> | 21,844                           | 5.12          |
| Foreign offices                                                         | 13,824          | 4.06                | 12,368                           | 5.67          |
| Total non-margin loans                                                  | 41,933          | 2.06 <sup>(b)</sup> | 34,212                           | 5.32          |
| Securities                                                              |                 |                     |                                  |               |
| U.S. government obligations                                             | 554             | 3.15                | 193                              | 4.69          |
| U.S. government agency obligations                                      | 11,325          | 4.44                | 5,816                            | 5.39          |
| Obligations of states and political subdivisions                        | 700             | 6.92                | 301                              | 6.88          |
| Other securities                                                        | 33,054          | 5.30                | 25,133                           | 5.44          |
| Trading securities                                                      | 1,723           | 3.85                | 1,980                            | 4.50          |
| Total securities                                                        | 47,356          | 5.04                | 33,423                           | 5.38          |
| Total interest-earning assets                                           | 144,554         | 3.68 <sup>(b)</sup> | 101,251                          | 5.24          |
| Allowance for loan losses                                               | (325)           |                     | (293)                            |               |
| Cash and due from banks                                                 | 6,361           |                     | 3,365                            |               |
| Other assets                                                            | 47,949          |                     | 29,376                           |               |
| Total assets                                                            | \$ 198,539      |                     | \$ 133,699                       |               |
| <b>Liabilities and shareholders' equity</b>                             |                 |                     |                                  |               |
| Interest-bearing liabilities:                                           |                 |                     |                                  |               |
| Money market rate accounts                                              | \$ 13,127       | 1.16%               | \$ 9,967                         | 3.18%         |
| Savings                                                                 | 960             | 1.72                | 545                              | 2.47          |
| Certificates of deposit of \$100,000 & over                             | 2,118           | 3.08                | 2,945                            | 5.35          |
| Other time deposits                                                     | 6,798           | 2.12                | 890                              | 5.83          |
| Foreign offices                                                         | 68,486          | 2.42                | 45,235                           | 3.71          |
| Total interest-bearing deposits                                         | 91,489          | 2.23                | 59,582                           | 3.72          |
| Federal funds purchased and securities sold under repurchase agreements | 4,809           | 1.47                | 2,531                            | 4.52          |
| Other funds borrowed                                                    | 3,163           | 2.99                | 2,331                            | 4.14          |
| Borrowings from Federal Reserve related to ABCP                         | 320             | 2.25                | -                                | -             |
| Payables to customers and broker-dealers                                | 5,469           | 1.46                | 5,074                            | 3.59          |
| Long-term debt                                                          | 16,651          | 3.95                | 11,254                           | 5.46          |
| Total interest-bearing liabilities                                      | 121,901         | 2.41                | 80,772                           | 3.99          |
| Total noninterest-bearing deposits                                      | 28,194          |                     | 18,944                           |               |
| Other liabilities                                                       | 19,762          |                     | 16,749                           |               |
| Total liabilities                                                       | 169,857         |                     | 116,465                          |               |
| Shareholders' equity                                                    | 28,682          |                     | 17,234                           |               |
| Total liabilities and shareholders' equity                              | \$ 198,539      |                     | \$ 133,699                       |               |
| Net interest margin - Taxable equivalent basis                          |                 | 1.65 <sup>(b)</sup> |                                  | 2.05%         |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

(b) Year-to-date 2008 includes the impact of the SILO/LILO charges. Excluding these charges, the domestic offices' non-margin loan rate would have been 3.93%, the total non-margin loan rate would have been 3.98%, the interest-earning assets rate would have been 4.24% and the net interest margin would have been 2.21% for the first nine months of 2008.

Note:

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

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### Noninterest expense

| Noninterest expense                                     |          |          |          |                  |      |          |                          |                       |
|---------------------------------------------------------|----------|----------|----------|------------------|------|----------|--------------------------|-----------------------|
| (dollar amounts in millions)                            | 3Q08     | 2Q08     | 3Q07     | 3Q08 vs.<br>3Q07 | 2Q08 | 2008     | Year-to-date<br>2007 (a) | YTD08<br>vs.<br>YTD07 |
| Staff:                                                  |          |          |          |                  |      |          |                          |                       |
| Compensation                                            | \$ 804   | \$ 804   | \$ 764   | 5%               | -%   | \$ 2,403 | \$ 1,695                 | 42%                   |
| Incentives                                              | 242      | 386      | 347      | (30)             | (37) | 994      | 665                      | 49                    |
| Employee benefits                                       | 172      | 201      | 169      | 2                | (14) | 564      | 392                      | 44                    |
| Total staff                                             | 1,218    | 1,391    | 1,280    | (5)              | (12) | 3,961    | 2,752                    | 44                    |
| Professional, legal and other purchased services        | 287      | 280      | 241      | 19               | 3    | 819      | 503                      | 63                    |
| Net occupancy                                           | 164      | 139      | 144      | 14               | 18   | 432      | 304                      | 42                    |
| Distribution and servicing                              | 133      | 131      | 127      | 5                | 2    | 394      | 135                      | 192                   |
| Software                                                | 78       | 88       | 91       | (14)             | (11) | 245      | 202                      | 21                    |
| Furniture and equipment                                 | 80       | 79       | 80       | -                | 1    | 238      | 184                      | 29                    |
| Sub-custodian and clearing                              | 80       | 83       | 110      | (27)             | (4)  | 233      | 267                      | (13)                  |
| Business development                                    | 62       | 75       | 56       | 11               | (17) | 203      | 123                      | 65                    |
| Other                                                   | 273      | 224      | 228      | 20               | 22   | 699      | 429                      | 63                    |
| Subtotal                                                | 2,375    | 2,490    | 2,357    | 1                | (5)  | 7,224    | 4,899                    | 47                    |
| Support agreement charges                               | 726      | (9)      | -        | N/M              | N/M  | 731      | -                        | N/M                   |
| Amortization of intangible assets                       | 120      | 124      | 131      | (8)              | (3)  | 366      | 188                      | 95                    |
| Merger and integration expenses:                        |          |          |          |                  |      |          |                          |                       |
| The Bank of New York Mellon Corporation                 | 107      | 146      | 205      | (48)             | (27) | 374      | 244                      | 53                    |
| Acquired Corporate Trust Business                       | 4        | 3        | 13       | (69)             | 33   | 12       | 36                       | (67)                  |
| Total noninterest expense                               | \$ 3,332 | \$ 2,754 | \$ 2,706 | 23%              | 21%  | \$ 8,707 | \$ 5,367                 | 62%                   |
| Total staff expense as a percent of total revenue (FTE) | 33% (b)  | 41% (b)  | 35%      |                  |      | 37% (b)  | 36%                      |                       |
| Employees at period-end                                 | 43,200   | 43,100   | 40,600   | 6%               | -%   | 43,200   | 40,600                   | 6%                    |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

(b) Excluding the SILO/LILO charges, total staff expense as a percentage of total revenue was 32% in the third quarter of 2008, 37% in the second quarter of 2008 and 35% in the first nine months of 2008.

N/M - Not meaningful.

Total noninterest expense increased \$626 million compared with the third quarter of 2007 and \$578 million compared with the second quarter of 2008. The increase compared with the third quarter of 2007 resulted primarily from:

- a \$726 million charge related to support agreements. See the Support Agreements section for further information;
- a third quarter 2008 operational error (\$38 million) in our Asset Servicing segment;
- an additional \$24 million charge related to credit monitoring for lost tapes; and
- the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V. in the fourth quarter of 2007.

Partially offsetting these increases were:

- lower incentives expense;
- lower merger and integration expenses; and
- the sale of the execution businesses to BNY ConvergeEx in the first quarter of 2008.

The sequential quarter increase primarily reflects the charge for the support agreements and the operational error partially offset by lower incentives and M&I expenses.

*Staff expense*

Given our mix of fee-based businesses, which are staffed with high quality professionals, staff expense comprised approximately 51% of total noninterest expense, excluding M&I and intangible amortization expenses and the previously mentioned charge for support agreements in the third 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

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incentive plans designed to reward a combination of individual, business unit and corporate performance goals; as well as stock-based compensation expense; and

employee benefit expense, primarily medical benefits, payroll taxes, pension and other retirement benefits.

The decrease in staff expense compared with the third quarter of 2007 reflects the ongoing benefit of merger-related synergies, lower incentives and the sale of the execution businesses, partially offset by the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V. in the fourth quarter of 2007 and the second quarter 2008 annual employee merit increase. The decrease in staff expense sequentially resulted from lower incentives and higher pension costs in the second quarter of 2008.

### *Non-staff expense*

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

Non-staff expense excluding M&I, intangible amortization expenses and support agreement charges totaled \$1.2 billion in the third quarter of 2008 compared with \$1.1 billion in both the third quarter of 2007 and second quarter of 2008.

The increase in non-staff expense compared with the third quarter of 2007 primarily reflects the operational error recorded in our Asset Servicing segment (\$38 million), the additional credit monitoring charge for the lost tapes (\$24 million), and higher professional, legal and other purchased services. Net occupancy also increased \$20 million from the third quarter of 2007 primarily reflecting adjustments to level certain leases in the third quarter of 2008. These increases were offset in part by lower sub-custodian and clearing expenses partially due to the sale of the execution business and lower software expenses. Non-staff expense increased sequentially primarily reflecting the operational error and the level lease adjustment, partially offset by lower business development and software expenses.

In the third quarter of 2008, we incurred \$107 million of M&I expenses related to the merger with Mellon Financial, comprised of the following:

Integration/conversion costs including consulting, system conversions and staff (\$65 million);

Personnel related costs including severance, retention, relocation expenses, accelerated vesting of stock options and restricted stock expense (\$37 million); and

One-time costs including facilities related costs, asset write-offs, vendor contract modifications, rebranding and net loss on disposals (\$5 million).

We also incurred \$4 million of M&I expenses associated with the acquisition of the corporate trust business of JPMorgan Chase ( Acquired Corporate Trust Business ) in the third quarter of 2008.

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

Noninterest expense in the first nine months of 2008 increased \$3.3 billion, or 62%, compared with the first nine months of 2007. The increase primarily resulted from the merger with Mellon Financial, the charge for support agreements and 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.

## **Income taxes**

On a continuing operations basis, the effective tax rate for the third quarter of 2008 was a negative 15.5% compared with 28.2% in the third quarter of 2007 and 50.8% in the second quarter of 2008. The negative effective tax rate in the third quarter of 2008 reflects the absolute level of charges associated with the support agreements, securities losses and the final SILO/LILO settlement, as well as the settlement of prior tax audit cycles. For additional information regarding the SILO/LILO charges, see Note 15 to Notes to Consolidated Financial Statements. The effective tax rate for the third quarter of 2007 was impacted by the recalculation of the yield on the leverage lease portfolio under SFAS 13. The effective tax rate for the second quarter of 2008 was impacted by the SILO charge and securities losses. Excluding these items, as well as M&I expenses, the effective tax rate was 32.4% in the third quarter of 2008, 33.3%



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in the third quarter of 2007 and 32.4% in the second quarter of 2008.

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

## Credit loss provision and net charge-offs

| Credit loss provision and net charge-offs<br><br>(in millions) | Quarter ended     |                  |                   | Nine months ended |                                  |
|----------------------------------------------------------------|-------------------|------------------|-------------------|-------------------|----------------------------------|
|                                                                | Sept. 30,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2007 | Sept. 30,<br>2008 | Sept. 30,<br>2007 <sup>(a)</sup> |
| Provision for credit losses                                    | \$ 30             | \$ 25            | \$ -              | \$ 71             | \$ (30)                          |
| Net (charge-offs) recoveries:                                  |                   |                  |                   |                   |                                  |
| Commercial                                                     | \$ (8)            | \$ (3)           | \$ -              | \$ (17)           | \$ (5)                           |
| Commercial real estate                                         | (2)               | (9)              | -                 | (11)              | -                                |
| Leasing                                                        | 2                 | 1                | (35)              | 3                 | (22)                             |
| Foreign                                                        | (9)               | -                | -                 | (14)              | -                                |
| Other                                                          | (5)               | (2)              | -                 | (9)               | -                                |
| Total net (charge-offs) recoveries                             | \$ (22)           | \$ (13)          | \$ (35)           | \$ (48)           | \$ (27)                          |

(a) Result for the nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

The provision for credit losses was \$30 million in the third quarter of 2008, compared with \$25 million in the second quarter of 2008 and no provision for credit losses in the third quarter of 2007. The increase in the provision for credit losses in the third quarter of 2008 compared with the second quarter of 2008 primarily reflects an increase in net charge-offs. We recorded net charge-offs of \$22 million in the third quarter of 2008, compared with net charge-offs of \$13 million in the second quarter of 2008 and net charge-offs of \$35 million in the third quarter of 2007. Net charge-offs in the third quarter of 2008 primarily reflect charge-offs related to foreign SIV exposure and a newspaper publisher. For the nine months ended Sept. 30, 2008, the provision for credit losses was \$71 million compared with a credit of \$30 million in the first nine months of 2007. This increase reflects a higher level of non-performing assets, as well as higher net charge-offs in 2008. Net charge-offs in the first nine months of 2008 were \$48 million compared with \$27 million in the first nine months of 2007. This increase primarily reflects charge-offs related to foreign SIV exposure, commercial real estate, a newspaper publisher and a retail trade customer.

## 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.

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

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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.

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

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

Revenue amounts reflect fee and other revenue generated by each segment, as well as fee and other revenue transferred between segments under revenue transfer agreements.

Revenues and expenses associated with specific client bases are included in those segments. For example, foreign exchange activity associated with clients using custody products is allocated to the Asset Servicing segment.

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

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

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

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

Goodwill and intangible assets are reflected within individual business segments.

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

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### *Sector/segment overview*

#### **Sector/Segment**

Asset & Wealth Management sector

Asset Management segment

#### **Primary types of revenue**

Asset and wealth management fees from:

Institutional clients

Mutual funds

Private clients

Performance fees

Distribution and servicing fees

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

Wealth Management segment

Institutional Services sector

Asset Servicing segment

Asset servicing fees, including:

Institutional trust and custody fees

Broker-dealer services

Securities lending

Foreign exchange

Issuer services fees, including:

Issuer Services segment

Corporate trust

Depository receipts

Employee investment plan services

Shareowner services

Clearing and execution services fees, including:

Clearing Services segment

Broker-dealer and Registered Investment

Advisor services

Treasury services fees, including:

Treasury Services segment

Global payment services

Working capital solutions

Financing-related fees

Leasing operations

Other segment

The activities of Mellon United National Bank

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Corporate treasury activities

Business exits

Global markets and institutional banking services

Merger and integration expenses

The volatile market environment continued to impact our business segments in the third quarter of 2008 compared with the third quarter of 2007 as reflected by higher foreign exchange and other trading activities and higher securities lending revenue. Broad declines in the equity markets from the third quarter of 2007 influenced revenue in the Asset and Wealth Management segments during that period. Also, during the third quarter of 2008, we elected to support clients impacted by the Lehman bankruptcy. These support agreements had a significant impact on the third quarter 2008 results of the Asset Management and Asset Servicing

segments and, to a lesser extent, in the Wealth Management and Treasury Services segments.

The merger with Mellon Financial in July 2007 had a considerable impact on the business segment results in the first nine months of 2008 compared with the first nine months of 2007. The merger with Mellon Financial significantly impacted the Asset Management, Wealth Management and Asset Servicing segments and, to a lesser extent, the Issuer Services, Treasury Services and Other segments.

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Non-program equity trading volumes were up 11% sequentially and 25% year-over-year. In addition, average daily U.S. fixed-income trading volume was up 9% sequentially and up 21% year-over-year. Total debt issuances decreased 47% sequentially and decreased 27% year-over-year. The issuance of global collateralized debt obligations was down 90% versus the third quarter of 2007.

The period end S&P 500 Index decreased 9% sequentially and 24% year-over-year. The period end FTSE 100 Index decreased 13% sequentially and 24% year-over-year. On a daily average basis, the S&P 500 Index decreased 9% sequentially and 16%

year-over-year and the FTSE 100 Index decreased 10% sequentially and 16% year-over-year. The period end NASDAQ Composite Index decreased 9% sequentially and 23% year-over-year.

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

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

| Market indices                                                    | 3Q08 vs. |        |        |        |               |              |             | Year-to-date  |        | YTD08        |
|-------------------------------------------------------------------|----------|--------|--------|--------|---------------|--------------|-------------|---------------|--------|--------------|
|                                                                   | vs.      |        |        |        |               |              |             | vs.           |        | vs.          |
|                                                                   | 3Q07     | 4Q07   | 1Q08   | 2Q08   | 3Q08          | 3Q07         | 2Q08        | 2008          | 2007   | YTD07        |
| S&P 500 Index <sup>(a)</sup>                                      | 1527     | 1468   | 1323   | 1280   | <b>1166</b>   | <b>(24)%</b> | <b>(9)%</b> | <b>1166</b>   | 1527   | <b>(24)%</b> |
| S&P 500 Index-daily average                                       | 1490     | 1496   | 1353   | 1371   | <b>1,252</b>  | <b>(16)</b>  | <b>(9)</b>  | <b>1325</b>   | 1471   | <b>(10)</b>  |
| FTSE 100 Index <sup>(a)</sup>                                     | 6467     | 6457   | 5702   | 5626   | <b>4902</b>   | <b>(24)</b>  | <b>(13)</b> | <b>4902</b>   | 6467   | <b>(24)</b>  |
| FTSE 100 Index-daily average                                      | 6366     | 6455   | 5891   | 5979   | <b>5359</b>   | <b>(16)</b>  | <b>(10)</b> | <b>5739</b>   | 6385   | <b>(10)</b>  |
| NASDAQ Composite Index <sup>(a)</sup>                             | 2702     | 2652   | 2279   | 2293   | <b>2092</b>   | <b>(23)</b>  | <b>(9)</b>  | <b>2092</b>   | 2702   | <b>(23)</b>  |
| Lehman Brothers Aggregate Bond <sup>sm</sup> Index <sup>(a)</sup> | 246.2    | 257.5  | 281.2  | 270.1  | <b>256.0</b>  | <b>4</b>     | <b>(5)</b>  | <b>256.0</b>  | 246.2  | <b>4</b>     |
| MSCI EAFE <sup>®</sup> Index <sup>(a)</sup>                       | 2300.3   | 2253.4 | 2038.6 | 1967.2 | <b>1553.2</b> | <b>(32)</b>  | <b>(21)</b> | <b>1553.2</b> | 2300.3 | <b>(32)</b>  |
| NYSE Volume <i>(in billions)</i>                                  | 145.5    | 135.0  | 158.5  | 140.7  | <b>179.8</b>  | <b>24</b>    | <b>28</b>   | <b>479.0</b>  | 397.0  | <b>21</b>    |
| NASDAQ Volume <i>(in billions)</i>                                | 137.0    | 137.4  | 148.9  | 134.5  | <b>144.9</b>  | <b>6</b>     | <b>8</b>    | <b>428.3</b>  | 402.3  | <b>6</b>     |

<sup>(a)</sup> Period end.

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

| For the quarter ended                                      | Total               |                      |                                           |                    |                    |                      |                      |                         | Total            |                          |
|------------------------------------------------------------|---------------------|----------------------|-------------------------------------------|--------------------|--------------------|----------------------|----------------------|-------------------------|------------------|--------------------------|
|                                                            | Institutional       |                      |                                           |                    |                    |                      |                      |                         | Total            |                          |
| Sept. 30, 2008                                             | Services            |                      |                                           |                    |                    |                      |                      |                         | Total            |                          |
| (dollar amounts in millions,<br>presented on an FTE basis) | Asset<br>Management | Wealth<br>Management | Asset &<br>Wealth<br>Management<br>Sector | Asset<br>Servicing | Issuer<br>Services | Clearing<br>Services | Treasury<br>Services | Institutional<br>Sector | Other<br>Segment | Continuing<br>Operations |
| Fee and other revenue                                      | \$ 687              | \$ 163               | \$ 850                                    | \$ 1,077           | \$ 529             | \$ 321               | \$ 262               | \$ 2,189                | \$ (105)         | \$ 2,934                 |
| Net interest revenue                                       | 10                  | 50                   | 60                                        | 240                | 170                | 74                   | 158                  | 642                     | 6                | 708                      |
| Total revenue                                              | 697                 | 213                  | 910                                       | 1,317              | 699                | 395                  | 420                  | 2,831                   | (99)             | 3,642                    |
| Provision for credit losses                                | -                   | 1                    | 1                                         | -                  | -                  | -                    | -                    | -                       | 29               | 30                       |
| Noninterest expense                                        | 883                 | 169                  | 1,052                                     | 1,208              | 370                | 291                  | 208                  | 2,077                   | 203              | 3,332                    |
| Income before taxes                                        | \$ (186)            | \$ 43                | \$ (143)                                  | \$ 109             | \$ 329             | \$ 104               | \$ 212               | \$ 754                  | \$ (331)         | \$ 280                   |
| Pre-tax operating margin <sup>(b)</sup>                    | (27)%               | 20%                  | (16)%                                     | 8%                 | 47%                | 26%                  | 50%                  | 27%                     | N/M              | 8%                       |
| Average assets                                             | \$ 13,286           | \$ 9,801             | \$ 23,087                                 | \$ 57,795          | \$ 34,264          | \$ 16,294            | \$ 22,384            | \$ 130,737              | \$ 45,003        | \$ 198,827               |
| Excluding intangible amortization:                         |                     |                      |                                           |                    |                    |                      |                      |                         |                  |                          |
| Noninterest expense                                        | \$ 819              | \$ 155               | \$ 974                                    | \$ 1,202           | \$ 349             | \$ 283               | \$ 202               | \$ 2,036                | \$ 202           | \$ 3,212                 |
| Income before taxes                                        | (122)               | 57                   | (65)                                      | 115                | 350                | 112                  | 218                  | 795                     | (330)            | 400                      |
| Pre-tax operating margin <sup>(b)</sup>                    | (18)%               | 27%                  | (7)%                                      | 9%                 | 50%                | 28%                  | 52%                  | 28%                     | N/M              | 11%                      |

| For the quarter ended                                      | Total               |                      |                                           |                    |                    |                      |                      |                         | Total            |                          |
|------------------------------------------------------------|---------------------|----------------------|-------------------------------------------|--------------------|--------------------|----------------------|----------------------|-------------------------|------------------|--------------------------|
|                                                            | Institutional       |                      |                                           |                    |                    |                      |                      |                         | Total            |                          |
| June 30, 2008                                              | Services            |                      |                                           |                    |                    |                      |                      |                         | Total            |                          |
| (dollar amounts in millions,<br>presented on an FTE basis) | Asset<br>Management | Wealth<br>Management | Asset &<br>Wealth<br>Management<br>Sector | Asset<br>Servicing | Issuer<br>Services | Clearing<br>Services | Treasury<br>Services | Institutional<br>Sector | Other<br>Segment | Continuing<br>Operations |
| Fee and other revenue                                      | \$ 796              | \$ 161               | \$ 957                                    | \$ 1,081           | \$ 479             | \$ 330               | \$ 255               | \$ 2,145                | \$ (109)         | \$ 2,993                 |
| Net interest revenue                                       | 11                  | 48                   | 59                                        | 213                | 176                | 74                   | 153                  | 616                     | (260)            | 415                      |
| Total revenue                                              | 807                 | 209                  | 1,016                                     | 1,294              | 655                | 404                  | 408                  | 2,761                   | (369)            | 3,408 <sup>(a)</sup>     |
| Provision for credit losses                                | -                   | (1)                  | (1)                                       | -                  | -                  | -                    | -                    | -                       | 26               | 25                       |
| Noninterest expense                                        | 604                 | 155                  | 759                                       | 803                | 367                | 297                  | 210                  | 1,677                   | 318              | 2,754                    |
| Income before taxes                                        | \$ 203              | \$ 55                | \$ 258                                    | \$ 491             | \$ 288             | \$ 107               | \$ 198               | \$ 1,084                | \$ (713)         | \$ 629                   |
| Pre-tax operating margin <sup>(b)</sup>                    | 25%                 | 26%                  | 25%                                       | 38%                | 44%                | 26%                  | 49%                  | 39%                     | N/M              | 18%                      |
| Average assets                                             | \$ 13,410           | \$ 10,254            | \$ 23,664                                 | \$ 54,763          | \$ 35,167          | \$ 15,576            | \$ 21,227            | \$ 126,733              | \$ 45,600        | \$ 195,997               |
| Excluding intangible amortization:                         |                     |                      |                                           |                    |                    |                      |                      |                         |                  |                          |
| Noninterest expense                                        | \$ 536              | \$ 142               | \$ 678                                    | \$ 798             | \$ 347             | \$ 291               | \$ 203               | \$ 1,639                | \$ 313           | \$ 2,630                 |
| Income before taxes                                        | 271                 | 68                   | 339                                       | 496                | 308                | 113                  | 205                  | 1,122                   | (708)            | 753                      |
| Pre-tax operating margin <sup>(b)</sup>                    | 34%                 | 33%                  | 33%                                       | 38%                | 47%                | 28%                  | 50%                  | 41%                     | N/M              | 22%                      |

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## For the quarter ended

### Total

## March 31, 2008

| <i>(dollar amounts in millions,<br/>presented on an FTE basis)</i> | Asset<br>Management | Wealth<br>Management | Asset &<br>Wealth<br>Management<br>Sector | Asset<br>Servicing | Issuer<br>Services | Clearing<br>Services | Treasury<br>Services | Total<br>Institutional<br>Services<br>Sector | Other<br>Segment | Total<br>Continuing<br>Operations |
|--------------------------------------------------------------------|---------------------|----------------------|-------------------------------------------|--------------------|--------------------|----------------------|----------------------|----------------------------------------------|------------------|-----------------------------------|
| Fee and other revenue                                              | \$ 752              | \$ 166               | \$ 918                                    | \$ 1,103           | \$ 407             | \$ 319               | \$ 227               | \$ 2,056                                     | \$ 15            | \$ 2,989                          |
| Net interest revenue                                               | 15                  | 46                   | 61                                        | 222                | 153                | 74                   | 182                  | 631                                          | 81               | 773                               |
| Total revenue                                                      | 767                 | 212                  | 979                                       | 1,325              | 560                | 393                  | 409                  | 2,687                                        | 96               | 3,762 <i>(a)</i>                  |
| Provision for credit losses                                        | -                   | -                    | -                                         | -                  | -                  | -                    | -                    | -                                            | 16               | 16                                |
| Noninterest expense                                                | 623                 | 155                  | 778                                       | 754                | 338                | 280                  | 212                  | 1,584                                        | 259              | 2,621                             |
| Income before taxes                                                | \$ 144              | \$ 57                | \$ 201                                    | \$ 571             | \$ 222             | \$ 113               | \$ 197               | \$ 1,103                                     | \$ (179)         | \$ 1,125                          |
| Pre-tax operating margin <i>(b)</i>                                | 19%                 | 27%                  | 21%                                       | 43%                | 40%                | 29%                  | 48%                  | 41%                                          | N/M              | 30%                               |
| Average assets                                                     | \$ 13,238           | \$ 10,496            | \$ 23,734                                 | \$ 52,468          | \$ 32,227          | \$ 15,618            | \$ 24,153            | \$ 124,466                                   | \$ 52,590        | \$ 200,790                        |
| Excluding intangible<br>amortization:                              |                     |                      |                                           |                    |                    |                      |                      |                                              |                  |                                   |
| Noninterest expense                                                | \$ 561              | \$ 142               | \$ 703                                    | \$ 747             | \$ 318             | \$ 274               | \$ 205               | \$ 1,544                                     | \$ 252           | \$ 2,499                          |
| Income before taxes                                                | 206                 | 70                   | 276                                       | 578                | 242                | 119                  | 204                  | 1,143                                        | (172)            | 1,247                             |
| Pre-tax operating margin <i>(b)</i>                                | 27%                 | 33%                  | 28%                                       | 44%                | 43%                | 30%                  | 50%                  | 43%                                          | N/M              | 33%                               |

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## For the quarter ended

Dec. 31, 2007

| (dollar amounts in millions, presented on an FTE basis) | Total            |                   |                                  |                 |                 |                   |                   |            | Institutional |                      | Total                 |  |
|---------------------------------------------------------|------------------|-------------------|----------------------------------|-----------------|-----------------|-------------------|-------------------|------------|---------------|----------------------|-----------------------|--|
|                                                         | Asset Management | Wealth Management | Asset & Wealth Management Sector | Asset Servicing | Issuer Services | Clearing Services | Treasury Services |            | Sector        | Other Segment        | Continuing Operations |  |
| Fee and other revenue                                   | \$ 888           | \$ 167            | \$ 1,055                         | \$ 1,036        | \$ 457          | \$ 357            | \$ 243            | \$ 2,093   | \$ (90)       | \$ 3,058             |                       |  |
| Net interest revenue                                    | 18               | 42                | 60                               | 225             | 175             | 78                | 161               | 639        | 58            | 757                  |                       |  |
| Total revenue                                           | 906              | 209               | 1,115                            | 1,261           | 632             | 435               | 404               | 2,732      | (32)          | 3,815 <sup>(a)</sup> |                       |  |
| Provision for credit losses                             | -                | -                 | -                                | -               | -               | -                 | -                 | -          | 20            | 20                   |                       |  |
| Noninterest expense                                     | 629              | 156               | 785                              | 816             | 345             | 311               | 208               | 1,680      | 287           | 2,752                |                       |  |
| Income before taxes                                     | \$ 277           | \$ 53             | \$ 330                           | \$ 445          | \$ 287          | \$ 124            | \$ 196            | \$ 1,052   | \$ (339)      | \$ 1,043             |                       |  |
| Pre-tax operating margin <sup>(b)</sup>                 | 31%              | 25%               | 30%                              | 35%             | 45%             | 29%               | 49%               | 39%        | N/M           | 27%                  |                       |  |
| Average assets                                          | \$ 13,495        | \$ 9,858          | \$ 23,353                        | \$ 48,462       | \$ 32,729       | \$ 15,526         | \$ 21,902         | \$ 118,619 | \$ 51,015     | \$ 192,987           |                       |  |
| Excluding intangible amortization:                      |                  |                   |                                  |                 |                 |                   |                   |            |               |                      |                       |  |
| Noninterest expense                                     | \$ 559           | \$ 142            | \$ 701                           | \$ 810          | \$ 324          | \$ 305            | \$ 201            | \$ 1,640   | \$ 280        | \$ 2,621             |                       |  |
| Income before taxes                                     | 347              | 67                | 414                              | 451             | 308             | 130               | 203               | 1,092      | (332)         | 1,174                |                       |  |
| Pre-tax operating margin <sup>(b)</sup>                 | 38%              | 32%               | 37%                              | 36%             | 49%             | 30%               | 50%               | 40%        | N/M           | 31%                  |                       |  |

## For the quarter ended

Sept. 30, 2007

| (dollar amounts in millions, presented on an FTE basis) | Total            |                   |                                  |                 |                 |                   |                   |            | Institutional |                      | Total                 |  |
|---------------------------------------------------------|------------------|-------------------|----------------------------------|-----------------|-----------------|-------------------|-------------------|------------|---------------|----------------------|-----------------------|--|
|                                                         | Asset Management | Wealth Management | Asset & Wealth Management Sector | Asset Servicing | Issuer Services | Clearing Services | Treasury Services |            | Sector        | Other Segment        | Continuing Operations |  |
| Fee and other revenue                                   | \$ 745           | \$ 156            | \$ 901                           | \$ 906          | \$ 460          | \$ 372            | \$ 224            | \$ 1,962   | \$ 77         | \$ 2,940             |                       |  |
| Net interest revenue                                    | (4)              | 41                | 37                               | 195             | 159             | 77                | 140               | 571        | 66            | 674                  |                       |  |
| Total revenue                                           | 741              | 197               | 938                              | 1,101           | 619             | 449               | 364               | 2,533      | 143           | 3,614 <sup>(a)</sup> |                       |  |
| Provision for credit losses                             | -                | -                 | -                                | -               | -               | -                 | -                 | -          | -             | -                    |                       |  |
| Noninterest expense                                     | 608              | 153               | 761                              | 759             | 311             | 322               | 203               | 1,595      | 350           | 2,706                |                       |  |
| Income before taxes                                     | \$ 133           | \$ 44             | \$ 177                           | \$ 342          | \$ 308          | \$ 127            | \$ 161            | \$ 938     | \$ (207)      | \$ 908               |                       |  |
| Pre-tax operating margin <sup>(b)</sup>                 | 18%              | 22%               | 19%                              | 31%             | 50%             | 28%               | 44%               | 37%        | N/M           | 25%                  |                       |  |
| Average assets                                          | \$ 13,482        | \$ 9,964          | \$ 23,446                        | \$ 44,043       | \$ 30,771       | \$ 14,869         | \$ 21,166         | \$ 110,849 | \$ 49,533     | \$ 183,828           |                       |  |
| Excluding intangible amortization:                      |                  |                   |                                  |                 |                 |                   |                   |            |               |                      |                       |  |
| Noninterest expense                                     | \$ 538           | \$ 139            | \$ 677                           | \$ 753          | \$ 291          | \$ 316            | \$ 196            | \$ 1,556   | \$ 342        | \$ 2,575             |                       |  |
| Income before taxes                                     | 203              | 58                | 261                              | 348             | 328             | 133               | 168               | 977        | (199)         | 1,039                |                       |  |
| Pre-tax operating margin <sup>(b)</sup>                 | 27%              | 29%               | 28%                              | 32%             | 53%             | 30%               | 46%               | 39%        | N/M           | 29%                  |                       |  |

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For the nine months ended

Sept. 30, 2008

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

|                                         | Asset<br>Management | Wealth<br>Management | Total<br>Asset &<br>Wealth<br>Management<br>Sector | Asset<br>Servicing | Issuer<br>Services | Clearing<br>Services | Treasury<br>Services | Total<br>Institutional<br>Services<br>Sector | Other<br>Segment | Total<br>Continuing<br>Operations |
|-----------------------------------------|---------------------|----------------------|----------------------------------------------------|--------------------|--------------------|----------------------|----------------------|----------------------------------------------|------------------|-----------------------------------|
| Fee and other revenue                   | \$ 2,235            | \$ 490               | \$ 2,725                                           | \$ 3,261           | \$ 1,415           | \$ 970               | \$ 744               | \$ 6,390                                     | \$ (199)         | \$ 8,916                          |
| Net interest revenue                    | 36                  | 144                  | 180                                                | 675                | 499                | 222                  | 493                  | 1,889                                        | (173)            | 1,896                             |
| Total revenue                           | 2,271               | 634                  | 2,905                                              | 3,936              | 1,914              | 1,192                | 1,237                | 8,279                                        | (372)            | 10,812 <sup>(a)</sup>             |
| Provision for credit losses             | -                   | -                    | -                                                  | -                  | -                  | -                    | -                    | -                                            | 71               | 71                                |
| Noninterest expense                     | 2,110               | 479                  | 2,589                                              | 2,765              | 1,075              | 868                  | 630                  | 5,338                                        | 780              | 8,707                             |
| Income before taxes                     | \$ 161              | \$ 155               | \$ 316                                             | \$ 1,171           | \$ 839             | \$ 324               | \$ 607               | \$ 2,941                                     | \$ (1,223)       | \$ 2,034                          |
| Pre-tax operating margin <sup>(b)</sup> | 7%                  | 24%                  | 11%                                                | 30%                | 44%                | 27%                  | 49%                  | 36%                                          | N/M              | 19%                               |
| Average assets                          | \$ 13,311           | \$ 10,182            | \$ 23,493                                          | \$ 55,019          | \$ 33,888          | \$ 15,831            | \$ 22,587            | \$ 127,325                                   | \$ 47,721        | \$ 198,539                        |
| Excluding intangible amortization:      |                     |                      |                                                    |                    |                    |                      |                      |                                              |                  |                                   |
| Noninterest expense                     | \$ 1,916            | \$ 439               | \$ 2,355                                           | \$ 2,747           | \$ 1,014           | \$ 848               | \$ 610               | \$ 5,219                                     | \$ 767           | \$ 8,341                          |
| Income before taxes                     | 355                 | 195                  | 550                                                | 1,189              | 900                | 344                  | 627                  | 3,060                                        | (1,210)          | 2,400                             |
| Pre-tax operating margin <sup>(b)</sup> | 16%                 | 31%                  | 19%                                                | 30%                | 47%                | 29%                  | 51%                  | 37%                                          | N/M              | 22%                               |

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**Sept. 30, 2007 (c)**

(in millions, presented on

*an FTE basis)*

Excluding intangible  
amortization:

(b) *Income before taxes divided by total revenue.*

(c) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation

*N/M* - Not meaningful.

## Asset and Wealth Management Sector

with \$1.106 trillion at Sept. 30, 2007, and \$1.113 trillion at June 30, 2008. The year-over-year and sequential decreases in AUM reflects broad declines in the equity markets and a stronger U.S. dollar, which more than offset net asset inflows.

### Assets under management at period-end, by product type

| (in billions)                       | Sept. 30,<br>2007 | Dec. 31,<br>2007 | March 31,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2008 |
|-------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|
| Equity securities                   | \$ 456            | \$ 460           | \$ 424            | \$ 412           | \$ 371            |
| Money market                        | 275               | 296              | 320               | 343              | 363               |
| Fixed income securities             | 215               | 218              | 219               | 218              | 229               |
| Alternative investments and overlay | 160               | 147              | 142               | 140              | 104               |

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|                               |          |          |          |          |          |
|-------------------------------|----------|----------|----------|----------|----------|
| Total assets under management | \$ 1,106 | \$ 1,121 | \$ 1,105 | \$ 1,113 | \$ 1,067 |
|-------------------------------|----------|----------|----------|----------|----------|

## Assets under management at period-end, by client type

|                               | Sept. 30,<br>2007 | Dec. 31,<br>2007 | March<br>31,<br>2008 | June 30,<br>2008 | Sept.<br>30,<br>2008 |
|-------------------------------|-------------------|------------------|----------------------|------------------|----------------------|
| <i>(in billions)</i>          |                   |                  |                      |                  |                      |
| Institutional                 | \$ 682            | \$ 671           | \$ 636               | \$ 625           | \$ 585               |
| Mutual funds                  | 323               | 349              | 373                  | 393              | 384                  |
| Private client                | 101               | 101              | 96                   | 95               | 98                   |
| Total assets under management | \$ 1,106          | \$ 1,121         | \$ 1,105             | \$ 1,113         | \$ 1,067             |

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

| <i>(in billions)</i>                                                 | Asset<br>Management         | Wealth<br>Management       | Total           |
|----------------------------------------------------------------------|-----------------------------|----------------------------|-----------------|
| Market value of assets under management at June 30, 2008             | \$ 1,032                    | \$ 81                      | \$ 1,113        |
| Net inflows (outflows):                                              |                             |                            |                 |
| Long-term                                                            | (6)                         | -                          | (6)             |
| Money market                                                         | 14                          | -                          | 14              |
| Total net inflows                                                    | 8                           | -                          | 8               |
| Net market depreciation <sup>(a)</sup>                               | (50)                        | (4)                        | (54)            |
| <b>Market value of assets under management at<br/>Sept. 30, 2008</b> | <b>\$ 990<sup>(b)</sup></b> | <b>\$ 77<sup>(c)</sup></b> | <b>\$ 1,067</b> |

(a) Includes the effect of changes in foreign exchange rates.

(b) Excludes \$5 billion subadvised for the Wealth Management segment.

(c) Excludes private client assets managed in the Asset Management segment.

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

| <i>(in billions)</i>                                                 | Asset<br>Management         | Wealth<br>Management       | Total           |
|----------------------------------------------------------------------|-----------------------------|----------------------------|-----------------|
| Market value of assets under management at Sept. 30, 2007:           | \$ 1,020                    | \$ 86                      | \$ 1,106        |
| Net inflows (outflows):                                              |                             |                            |                 |
| Long-term                                                            | (43)                        | 3                          | (40)            |
| Money market                                                         | 103                         | -                          | 103             |
| Total net inflows                                                    | 60                          | 3                          | 63              |
| Net market depreciation <sup>(a)</sup>                               | (91)                        | (12)                       | (103)           |
| Other                                                                | 1                           | -                          | 1               |
| <b>Market value of assets under management at<br/>Sept. 30, 2008</b> | <b>\$ 990<sup>(b)</sup></b> | <b>\$ 77<sup>(c)</sup></b> | <b>\$ 1,067</b> |

(a) Includes the effect of changes in foreign exchange rates.

(b) Excludes \$5 billion subadvised for the Wealth Management segment.

(c) Excludes private client assets managed in the Asset Management segment.

### Asset Management segment

| <i>(dollar amounts in millions,</i> | 3Q07 | 4Q07 | 1Q08 | 2Q08 | 3Q08 | 3Q08 vs.<br>3Q07 | 2Q08 | Year-to-date<br>2008 | 2007 <sup>(a)</sup> | YTD08<br>vs.<br>YTD07 |
|-------------------------------------|------|------|------|------|------|------------------|------|----------------------|---------------------|-----------------------|
|-------------------------------------|------|------|------|------|------|------------------|------|----------------------|---------------------|-----------------------|

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unless otherwise noted;

presented on FTE basis)

|                                                                                 |           |           |           |           |                      |        |        |                    |          |       |
|---------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|----------------------|--------|--------|--------------------|----------|-------|
| <b>Revenue:</b>                                                                 |           |           |           |           |                      |        |        |                    |          |       |
| Asset and wealth management:                                                    |           |           |           |           |                      |        |        |                    |          |       |
| Mutual funds                                                                    | \$ 307    | \$ 323    | \$ 323    | \$ 340    | \$ 328               | 7%     | (4)%   | \$ 991             | \$ 314   | 216%  |
| Institutional clients                                                           | 331       | 342       | 304       | 290       | 265                  | (20)   | (9)    | 859                | 479      | 79    |
| Private clients                                                                 | 47        | 47        | 45        | 47        | 43                   | (9)    | (9)    | 135                | 77       | 75    |
| Total asset and wealth management revenue                                       |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | 685       | 712       | 672       | 677       | 636                  | (7)    | (6)    | 1,985              | 870      | 128   |
| Performance fees                                                                | (3)       | 62        | 20        | 16        | 3                    | N/M    | N/M    | 39                 | 32       | 22    |
| Distribution and servicing                                                      | 89        | 104       | 86        | 99        | 93                   | 4      | (6)    | 278                | 89       | 212   |
| Other                                                                           | (26)      | 10        | (26)      | 4         | (45)                 | N/M    | N/M    | (67)               | (13)     | N/M   |
| Total fee and other revenue                                                     |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | 745       | 888       | 752       | 796       | 687                  | (8)    | (14)   | 2,235              | 978      | 129   |
| Net interest revenue (expense)                                                  |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | (4)       | 18        | 15        | 11        | 10                   | N/M    | (9)    | 36                 | 1        | N/M   |
| Total revenue                                                                   |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | 741       | 906       | 767       | 807       | 697                  | (6)    | (14)   | 2,271              | 979      | 132   |
| Noninterest expense (ex. intangible amortization and support agreement charges) |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | 538       | 559       | 561       | 531       | 491                  | (9)    | (8)    | 1,583              | 676      | 134   |
| Income before taxes (ex. intangible amortization and support agreement charges) |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | 203       | 347       | 206       | 276       | 206                  | 1      | (25)   | 688                | 303      | 127   |
| Amortization of intangible assets                                               |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | 70        | 70        | 62        | 68        | 64                   | (9)    | (6)    | 194                | 78       | 149   |
| Support agreement charges                                                       |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | -         | -         | -         | 5         | 328                  | N/M    | N/M    | 333                | -        | N/M   |
| Income before taxes                                                             |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | \$ 133    | \$ 277    | \$ 144    | \$ 203    | \$ (186)             | (240)% | (192)% | \$ 161             | \$ 225   | (28)% |
| Pre-tax operating margin (ex. intangible amortization)                          |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | 27%       | 38%       | 27%       | 34%       | (18)% <sup>(b)</sup> |        |        | 16% <sup>(b)</sup> | 31%      |       |
| Average assets                                                                  |           |           |           |           |                      |        |        |                    |          |       |
|                                                                                 | \$ 13,482 | \$ 13,495 | \$ 13,238 | \$ 13,410 | \$ 13,286            | (1)%   | (1)%   | \$ 13,311          | \$ 5,662 | 135%  |

(a) Results for year-to-date 2007 includes six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

(b) The pre-tax operating margin, excluding support agreement charges and intangible amortization, was 30% in the third quarter and first nine months of 2008.

N/M Not meaningful.

## Business description

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

intermediary and institutional distribution of investment management and related services. The investment management boutiques offer a broad range of equity, fixed income, cash and alternative/overlay products. In addition to the investment subsidiaries, BNY Mellon Asset

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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 12<sup>th</sup> largest global asset manager, the 10<sup>th</sup> largest U.S. asset manager and the 7<sup>th</sup> largest asset manager in Europe. We are also a top five tax-exempt, institutional U.S. asset manager.

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

On Oct. 1, 2008, we sold the assets of Gannett Welsh & Kotler, an investment management subsidiary with approximately \$8 billion in assets under management.

The results of the Asset Management segment are mainly driven by the period-end and average levels of assets managed as well as the mix of those assets, as previously shown. Results for this segment are also impacted by sales of fee-based products such as fixed and variable annuities and separately managed accounts. In addition, performance fees may be generated when the investment performance exceeds various benchmarks and satisfies other criteria. Expenses in this segment are mainly driven by staffing costs, incentives, distribution and servicing expense, and product distribution costs.

### *Review of financial results*

In the third quarter of 2008, Asset Management had a pre-tax loss of \$186 million compared with pre-tax income of \$133 million in the third quarter of 2007 and \$203 million in the second quarter of 2008. Excluding intangible amortization, the pre-tax loss was \$122 million in the third quarter of 2008 compared with pre-tax income of \$203 million in the third quarter of 2007 and \$271 million in the second quarter of 2008. Results for the third quarter of 2008 were primarily impacted by \$328 million of support agreement charges resulting from new support agreements related to commingled cash funds and money market funds, as well as previously existing agreements.

Asset and wealth management revenue in the Asset Management segment was \$636 million in the third quarter of 2008 compared with \$685 million in the third quarter of 2007 and \$677 million in the second quarter of 2008. The decrease compared to both periods reflects global weakness in market values and a stronger U.S. dollar which more than offset net new business.

Approximately 40% of consolidated asset and wealth management fees are generated in the Asset Management segment from managed mutual funds. These fees are based on the daily average net assets of each fund and the basis point management fee paid by that fund. Managed mutual fund fee revenue was \$328 million in the third quarter of 2008 compared with \$307 million in the third quarter of 2007 and \$340 million in the second quarter of 2008. The increase compared with the third quarter of 2007 reflects strong money market inflows. The decrease sequentially resulted from lower market values of equity securities and a stronger U.S. dollar, partially offset by money market inflows.

Performance fees were \$3 million in the third quarter of 2008 compared with negative \$3 million in the third quarter of 2007 and \$16 million in the second quarter of 2008. The decline from the sequential quarter was primarily due to a lower level of fees generated from certain equity and alternative strategies.

Distribution and servicing fees were \$93 million in the third quarter of 2008 compared with \$89 million in the third quarter of 2007 and \$99 million in the second quarter of 2008. The increase compared with the prior year period resulted from strong money market flows. The decrease sequentially reflects a high level of redemptions in certain international funds in the second quarter of 2008.

Other fee revenue was a loss of \$45 million in the third quarter of 2008 compared with a loss of \$26 million in the third quarter of 2007 and revenue of \$4 million in the second quarter of 2008. The year-over-year decline was due primarily to higher revenue sharing costs resulting from higher distribution volumes with the Issuer/Clearing Services segments related to the distribution of Dreyfus products. The sequential decline primarily



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resulted from the change in market value of seed capital investments.

Noninterest expense (excluding intangible amortization and support agreement charges) was \$491 million in the third quarter of 2008 compared with \$538 million in the third quarter of 2007 and \$531 million in the second quarter of 2008. The decrease compared with both the third quarter of 2007 and the second quarter of 2008 principally reflects overall expense management efforts, including lower incentives. The decrease compared with the third quarter of 2007 also reflects a \$32 million charge, recorded in the third quarter of 2007, related to the write-off of the value of the remaining interest in a hedge fund manager.

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

Income before taxes totaled \$161 million in the first nine months of 2008 compared with \$225 million in the first nine

months of 2007. Income before taxes (excluding intangible amortization and support agreement charges) was \$688 million in the first nine months of 2008 compared with \$303 million in the first nine months of 2007. Fee and other revenue increased \$1.3 billion, primarily due to the merger with Mellon Financial, the benefit of strong money market flows and growth in business outside the U.S., partially offset by lower equity markets and a stronger U.S. dollar. Noninterest expense (excluding intangible amortization and support agreement charges) increased \$907 million in the first nine months of 2008 compared with the first nine months of 2007, primarily due to the merger with Mellon Financial, the charge for support agreements, the write-down of seed capital investments related to a formerly affiliate hedge fund manager and the ARX acquisition, partially offset by strong expense control and the write-off of the value of the remaining interest in a hedge fund manager in the third quarter of 2007.

### Wealth Management segment

(dollar amounts in millions,

3Q08 vs.

Year-to-date

YTD08

unless otherwise noted;

vs.

presented on an FTE basis)

|                                                                                 | 3Q07   | 4Q07   | 1Q08   | 2Q08   | 3Q08   | 3Q07 | 2Q08 | 2008   | 2007 (a) | YTD07 |
|---------------------------------------------------------------------------------|--------|--------|--------|--------|--------|------|------|--------|----------|-------|
| Revenue:                                                                        |        |        |        |        |        |      |      |        |          |       |
| Asset and wealth management                                                     | \$ 151 | \$ 157 | \$ 153 | \$ 150 | \$ 141 | (7)% | (6)% | \$ 444 | \$ 247   | 80%   |
| Other                                                                           | 5      | 10     | 13     | 11     | 22     | N/M  | N/M  | 46     | 9        | N/M   |
| Total fee and other revenue                                                     | 156    | 167    | 166    | 161    | 163    | 4    | 1    | 490    | 256      | 91    |
| Net interest revenue                                                            | 41     | 42     | 46     | 48     | 50     | 22   | 4    | 144    | 69       | 109   |
| Total revenue                                                                   | 197    | 209    | 212    | 209    | 213    | 8    | 2    | 634    | 325      | 95    |
| Provision for credit losses                                                     | -      | -      | -      | (1)    | 1      | N/M  | N/M  | -      | -        | -     |
| Noninterest expense (ex. intangible amortization and support agreement charges) | 139    | 142    | 142    | 142    | 140    | 1    | (1)  | 424    | 243      | 74    |
| Income before taxes (ex. intangible amortization and support agreement charges) | 58     | 67     | 70     | 68     | 72     | 24   | 6    | 210    | 82       | 156   |

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|                                                                                              |         |         |          |          |                           |            |           |                           |         |             |
|----------------------------------------------------------------------------------------------|---------|---------|----------|----------|---------------------------|------------|-----------|---------------------------|---------|-------------|
| Amortization of intangible assets                                                            | 14      | 14      | 13       | 13       | <b>14</b>                 | -          | <b>8</b>  | <b>40</b>                 | 14      | <b>186</b>  |
| Support agreement charges                                                                    | -       | -       | -        | -        | <b>15</b>                 | N/M        | N/M       | <b>15</b>                 | -       | N/M         |
| Income before taxes                                                                          | \$ 44   | \$ 53   | \$ 57    | \$ 55    | \$ <b>43</b>              | (2)%       | (22)%     | \$ <b>155</b>             | \$ 68   | <b>128%</b> |
| Pre-tax operating margin (ex. intangible amortization)                                       | 29%     | 32%     | 33%      | 33%      | <b>27%</b> <sup>(b)</sup> |            |           | <b>31%</b> <sup>(b)</sup> | 25%     |             |
| Average loans                                                                                | \$4,133 | \$4,342 | \$ 4,390 | \$ 4,816 | \$ <b>5,231</b>           | <b>27%</b> | <b>9%</b> | \$ <b>4,814</b>           | \$2,281 | <b>111%</b> |
| Average assets                                                                               | 9,964   | 9,858   | 10,496   | 10,254   | <b>9,801</b>              | (2)        | (4)       | <b>10,182</b>             | 4,301   | <b>137</b>  |
| Average deposits                                                                             | 7,589   | 7,469   | 7,993    | 7,782    | <b>7,318</b>              | (4)        | (6)       | <b>7,696</b>              | 3,277   | <b>135</b>  |
| Market value of total client assets under management and custody at period-end (in billions) | \$ 170  | \$ 170  | \$ 164   | \$ 162   | \$ <b>158</b>             | (7)%       | (2)%      | \$ <b>158</b>             | \$ 170  | (7)%        |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

(b) The pre-tax operating margin, excluding support agreement charges and intangible amortization, was 34% and 33% in the third quarter and first nine months of 2008.

N/M - Not meaningful.

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### *Business description*

In the Wealth Management segment, we offer a full array of investment management, wealth and estate planning and private banking solutions to help clients protect, grow and transfer their wealth. Clients include high-net-worth individuals and families, family offices and business enterprises, charitable gift programs, and endowments and foundations. BNY Mellon Wealth Management is a top ten U.S. wealth manager with \$158 billion in client assets. We serve our clients through an expansive network of offices in 16 states and 3 countries.

The results of the Wealth Management segment are driven by the level and mix of assets managed and custodied and the level of activity in client accounts. Net interest revenue is determined by the level of interest rate 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 \$43 million in the third quarter of 2008, compared with \$44 million in the third quarter of 2007 and \$55 million in the second quarter of 2008. Income before taxes, excluding intangible amortization and support agreement charges, was \$72 million in the third quarter of 2008, compared with \$58 million in the third quarter of 2007 and \$68 million in the second quarter of 2008. Results compared with the third quarter of 2007 and second quarter of 2008 were impacted by a \$15 million charge to support certain clients holding auction rate securities recorded in the third quarter of 2008. Excluding this charge, Wealth Management generated approximately 700 basis points of positive operating leverage year-over-year and approximately 300 basis points sequentially, driven by business growth and expense management.

Total fee and other revenue was \$163 million in the third quarter of 2008, compared with \$156 million in the third quarter of 2007 and \$161 million in the second quarter of 2008. The increase compared with both prior periods reflects new business, organic growth and other capital market related fees, which more than offset sharp declines in the equity markets.

Wealth Management continues to benefit from new client flows as a result of the disruption in the markets, as net inflows totaled a record \$6 billion in 3Q08. Total client assets were \$158 billion at Sept. 30, 2008 compared to \$162 billion at June 30, 2008 and \$170 billion at Sept. 30, 2007, as strong new flows were more than offset by lower market values.

Net interest revenue increased \$9 million, or 22%, compared with the third quarter of 2007 and \$2 million, or 4% compared with the second quarter of 2008. The increases were due primarily to higher loan levels and improved deposit spreads. Average loan levels were up \$1.1 billion, or 27%, over the prior year period and up \$415 million, or 9% (unannualized) sequentially, due to new business.

Noninterest expense (excluding intangible amortization and support agreement charges) increased \$1 million compared with the third quarter of 2007 and decreased \$2 million compared with the second quarter of 2008. The year-over-year increase reflects the second quarter of 2008 annual merit salary increase which was primarily offset by the impact of merger-related synergies and expense control. The sequential decrease was due to strong expense control and the impact of synergies.

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

Income before taxes totaled \$155 million in the first nine months of 2008 compared with \$68 million in the first nine months of 2007. Income before taxes (excluding intangible amortization and support agreement charges) was \$210 million in the first nine months of 2008 compared with \$82 million in the first nine months of 2007. The increases in fee and other revenue, net interest revenue and noninterest expense in the first nine months of 2008 compared with the first nine months of 2007 reflect the merger with Mellon Financial as well as the same factors impacting the comparisons mentioned above.

### **Institutional Services Sector**

At Sept. 30, 2008, our assets under custody and administration were \$22.4 trillion, a 3% decrease from \$23.0 trillion at June 30, 2008 and a 1% decrease from \$22.7 trillion at Sept. 30, 2007. The decrease compared with both prior periods resulted from weaker market values and the impact of a stronger U.S. dollar, which more than offset the



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benefit of new business conversions. Equity securities were 28% and fixed-income securities were 72% of the assets under custody and administration at Sept. 30, 2008, compared with 25% equity securities and 75% fixed-income securities at June 30, 2008. Assets under custody and administration at Sept. 30, 2008 consisted of assets related to custody, mutual fund, and corporate trust businesses of \$17.1 trillion, broker-dealer service assets of \$3.3 trillion, and all other assets of \$2.0 trillion.

| Assets under custody and administration trend                                                       | Sept. 30,<br>2008 | June 30,<br>2008 | March 31,<br>2008 | Dec. 31,<br>2007 | Sept. 30,<br>2007 | 3Q08 vs.<br>3Q07 | 2Q08  |
|-----------------------------------------------------------------------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------|
| Market value of assets under custody and administration at period-end (in trillions) <sup>(a)</sup> | \$ 22.4           | \$ 23.0          | \$ 23.1           | \$ 23.1          | \$ 22.7           | (1)%             | (3)%  |
| Market value of securities on loan at period-end (in billions) <sup>(b)</sup>                       | \$ 470            | \$ 588           | \$ 660            | \$ 633           | \$ 663            | (29)%            | (20)% |

(a) Includes the assets under custody or administration of CIBC Mellon Global Securities Services Company, a joint venture with Canadian Imperial Bank of Commerce, of \$811 billion at Sept. 30, 2008, \$915 billion at June 30, 2008, \$930 billion at March 31, 2008, \$989 billion at Dec. 31, 2007, and \$957 billion at Sept. 30, 2007.

(b) 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,<br>unless<br><br>otherwise noted; presented on<br>an<br><br>FTE basis) | 3Q07   | 4Q07   | 1Q08   | 2Q08   | 3Q08   | 3Q07 | 2Q08 | 2008     | 2007 (a) | YTD08<br>vs.<br>YTD07 |
|-----------------------------------------------------------------------------------------------------|--------|--------|--------|--------|--------|------|------|----------|----------|-----------------------|
| Revenue:                                                                                            |        |        |        |        |        |      |      |          |          |                       |
| Securities servicing fees                                                                           |        |        |        |        |        |      |      |          |          |                       |
| -asset servicing                                                                                    | \$ 689 | \$ 777 | \$ 859 | \$ 821 | \$ 769 | 12%  | (6)% | \$ 2,449 | \$ 1,503 | 63%                   |
| Foreign exchange & other trading activities                                                         | 161    | 206    | 200    | 224    | 261    | 62   | 17   | 685      | 305      | 125                   |
| Other                                                                                               | 56     | 53     | 44     | 36     | 47     | (16) | 31   | 127      | 90       | 41                    |
| Total fee and other revenue                                                                         | 906    | 1,036  | 1,103  | 1,081  | 1,077  | 19   | -    | 3,261    | 1,898    | 72                    |
| Net interest revenue                                                                                | 195    | 225    | 222    | 213    | 240    | 23   | 13   | 675      | 468      | 44                    |
| Total revenue                                                                                       | 1,101  | 1,261  | 1,325  | 1,294  | 1,317  | 20   | 2    | 3,936    | 2,366    | 66                    |
| Noninterest expense<br>(ex. intangible amortization<br>and support agreement<br>charges)            | 753    | 807    | 733    | 812    | 821    | 9    | 1    | 2,366    | 1,649    | 43                    |
| Income before taxes<br>(ex. intangible amortization<br>and support agreement<br>charges)            | 348    | 454    | 592    | 482    | 496    | 43   | 3    | 1,570    | 717      | 119                   |
| Support agreement charges                                                                           | -      | 3      | 14     | (14)   | 381    | N/M  | N/M  | 381      | -        | N/M                   |
| Amortization of intangible assets                                                                   | 6      | 6      | 7      | 5      | 6      | -    | 20   | 18       | 9        | 100                   |

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|                                                                      |           |           |           |           |                   |       |       |                    |           |       |
|----------------------------------------------------------------------|-----------|-----------|-----------|-----------|-------------------|-------|-------|--------------------|-----------|-------|
| Income before taxes                                                  | \$ 342    | \$ 445    | \$ 571    | \$ 491    | \$ 109            | (68)% | (78)% | \$ 1,171           | \$ 708    | 65%   |
| Pre-tax operating margin<br>(ex. intangible amortization)            | 32%       | 36%       | 44%       | 38%       | 9% <sup>(b)</sup> |       |       | 30% <sup>(b)</sup> | 30%       |       |
| Average assets                                                       | \$ 44,043 | \$ 48,462 | \$ 52,468 | \$ 54,763 | \$ 57,795         | 31%   | 6%    | \$ 55,019          | \$ 34,496 | 59%   |
| Average deposits                                                     | 38,065    | 42,446    | 46,092    | 48,436    | 51,492            | 35    | 6     | 48,684             | 30,657    | 59    |
| Securities lending revenue                                           | 110       | 164       | 245       | 202       | 155               | 41    | (23)  | 602                | 201       | 200   |
| Market value of securities on<br>loan at period-end (in<br>billions) | 663       | 633       | 660       | 588       | 470               | (29)% | (20)% | 470                | 663       | (29)% |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

(b) The pre-tax operating margin, excluding support agreement charges and intangible amortization, was 38% and 40% for the third quarter and first nine months of 2008.

N/M - Not meaningful.

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### *Business description*

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

The results of the Asset Servicing segment are driven by a number of factors which include the level of transactional activity and extent of services provided including custody, accounting, fund administration, daily valuations, performance measurement and risk analytics, securities lending and investment manager backoffice outsourcing, as well as the market value of assets under administration and custody. Market interest rates impact both securities lending revenue and the earnings on client cash balances. Broker-dealer fees depend on the level of activity in the fixed income and equity markets and the financing needs of customers, which are typically higher when the equity and fixed income markets are active. Also, the use of tri-party repo arrangements continues to remain a key revenue driver in broker-dealer services. Foreign exchange trading revenues are influenced by the volume of client transactions and the spread realized on these transactions, market volatility in major currencies, the level of cross-border assets held in custody for clients, the level and nature of underlying cross-border investment and other transactions undertaken by corporate and institutional clients. Segment expenses are principally driven by staffing levels and technology investments necessary to process transaction volumes. Fees paid to sub-custodians 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 \$22.4 trillion of assets under custody and administration at Sept. 30, 2008. We are one of the largest providers of fund services in the world, servicing \$4.5 trillion in assets. We also service 47.2% of the funds in the U.S. exchange-traded funds marketplace. 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 approximately 30% 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 depository receipts and service a lending pool of \$2.85 trillion in 30 markets around the world at Sept. 30, 2008. We are one of the largest global providers of performance and risk analytics with \$9.6 trillion in assets under measurement.

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

### *Review of financial results*

Income before taxes was \$109 million in the third quarter of 2008 compared with \$342 million in the third quarter of 2007, and \$491 million in the second quarter of 2008. The third quarter of 2008 included a \$381 million charge for support agreements related to the support of various securities lending customers, commingled cash sweep funds and charges related to previously existing support agreements. The decrease in income before taxes compared with both periods primarily resulted from the charge for the support agreements.

Total fee and other revenue increased \$171 million in the third quarter of 2008 compared with the third quarter of 2007 and decreased \$4 million sequentially. Asset servicing fees increased \$80 million, or 12%, compared with the third quarter of 2007, reflecting net new business, cross sells and organic growth, higher securities lending revenue and the impact of the fourth quarter 2007 acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V. Asset Servicing fees decreased \$52 million, or 6%, (unannualized) sequentially, due primarily to lower securities lending revenue, reflecting normal seasonality and lower market levels which neutralized organic growth.

Securities lending revenue increased \$45 million compared to the third quarter of 2007 and declined

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\$47 million sequentially. The year-over-year increase primarily reflects favorable spreads in the short-term credit markets. The sequential decline reflects a decline in volume and a narrowing of spreads. The decline in volume resulted from normal seasonality, lower market valuations and overall de-leveraging by financial institutions.

Foreign exchange and other trading activities increased \$100 million compared with the third quarter of 2007 and \$37 million sequentially. Both prior period increases reflect the benefit of significant increases in currency volatility as well as higher client volumes.

Net interest revenue increased \$45 million compared with the third quarter of 2007 and \$27 million compared with the second quarter of 2008. The increases over both periods were driven by strong deposit growth as well as increased deposit spreads.

Noninterest expense (excluding intangible amortization and support agreement charges) increased \$68 million compared with the third quarter of 2007 and \$9 million compared with the second quarter of 2008. The increase compared to the third quarter of 2007 was driven by the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V., the second quarter

2008 annual merit salary increase and an operational error (\$38 million) recorded in the third quarter of 2008, partially offset by merger-related synergies. The sequential increase principally reflects the impact of the operational error partially offset by merger-related synergies and lower incentives.

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

Income before taxes totaled \$1.2 billion in the first nine months of 2008 compared with \$708 million in the first nine months of 2007. Excluding intangible amortization and support agreement charges, income before taxes increased \$853 million. Fee and other revenue increased \$1.4 billion primarily due to the merger with Mellon Financial, higher foreign currency revenue and higher securities lending revenue related to market volatility, net new business and the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V. Net interest revenue increased \$207 million primarily driven by the merger with Mellon Financial and deposit growth. Noninterest expense (excluding intangible amortization and support agreement charges) increased \$717 million primarily due to the merger with Mellon Financial, the acquisition of the remaining 50% interest in BNY Mellon Asset Servicing, B.V., the third quarter operational error, the impact of new business and other growth initiatives.

### Issuer Services segment

|                                    | 3Q08 vs. |        |        | Year-to-date |        | YTD08 |      |          |          |       |
|------------------------------------|----------|--------|--------|--------------|--------|-------|------|----------|----------|-------|
| (dollar amounts in millions,       |          |        |        |              |        | vs.   |      |          |          |       |
| presented on an FTE basis)         | 3Q07     | 4Q07   | 1Q08   | 2Q08         | 3Q08   | 3Q07  | 2Q08 | 2008     | 2007 (a) | YTD07 |
| Revenue:                           |          |        |        |              |        |       |      |          |          |       |
| Securities servicing fees - issuer |          |        |        |              |        |       |      |          |          |       |
| services                           | \$ 436   | \$ 438 | \$ 374 | \$ 443       | \$ 475 | 9%    | 7%   | \$ 1,292 | \$ 1,122 | 15%   |
| Other                              | 24       | 19     | 33     | 36           | 54     | 125   | 50   | 123      | 81       | 52    |
| Total fee and other revenue        | 460      | 457    | 407    | 479          | 529    | 15    | 10   | 1,415    | 1,203    | 18    |
| Net interest revenue               | 159      | 175    | 153    | 176          | 170    | 7     | (3)  | 499      | 392      | 27    |
| Total revenue                      | 619      | 632    | 560    | 655          | 699    | 13    | 7    | 1,914    | 1,595    | 20    |
| Noninterest expense                |          |        |        |              |        |       |      |          |          |       |
| (ex. intangible amortization)      | 291      | 324    | 318    | 347          | 349    | 20    | 1    | 1,014    | 760      | 33    |
| Income before taxes                |          |        |        |              |        |       |      |          |          |       |
| (ex. intangible amortization)      | 328      | 308    | 242    | 308          | 350    | 7     | 14   | 900      | 835      | 8     |
| Amortization of intangible assets  | 20       | 21     | 20     | 20           | 21     | 5     | 5    | 61       | 54       | 13    |
| Income before taxes                | \$ 308   | \$ 287 | \$ 222 | \$ 288       | \$ 329 | 7%    | 14%  | \$ 839   | \$ 781   | 7%    |
| Pre-tax operating margin           |          |        |        |              |        |       |      |          |          |       |
| (ex. intangible amortization)      | 53%      | 49%    | 43%    | 47%          | 50%    |       |      | 47%      | 52%      |       |

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|                               |           |           |           |           |                  |            |             |                  |           |            |
|-------------------------------|-----------|-----------|-----------|-----------|------------------|------------|-------------|------------------|-----------|------------|
| Average assets                | \$ 30,771 | \$ 32,729 | \$ 32,227 | \$ 35,167 | <b>\$ 34,264</b> | <b>11%</b> | <b>(3)%</b> | <b>\$ 33,888</b> | \$ 23,276 | <b>46%</b> |
| Average deposits              | 26,186    | 28,293    | 27,632    | 30,557    | <b>29,546</b>    | <b>13</b>  | <b>(3)</b>  | <b>29,246</b>    | 19,033    | <b>54</b>  |
| Number of Depositary Receipts |           |           |           |           |                  |            |             |                  |           |            |
| Programs                      | 1,291     | 1,311     | 1,315     | 1,322     | <b>1,354</b>     | <b>5</b>   | <b>2</b>    |                  |           |            |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

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### *Business description*

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

As the world's largest trustee, we provide diverse services for conventional, structured and specialty debt issuers. We, as trustee or agent, service approximately \$12 trillion in outstanding debt from offices in 56 locations around the world, including 19 locations outside the U.S. We serve as depositary for more than 1,300 sponsored American and global depositary receipt programs, with a 63% market share, acting in partnership with leading companies from 64 countries. In addition to top-ranked stock transfer agency services, BNY Mellon Shareowner Services offers a comprehensive suite of equity solutions ranging from record keeping and corporate actions processing, demutualizations, direct investment, dividend reinvestment, proxy solicitation and employee stock plan administration.

Fee revenue in the Issuer Services segment depends on:

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

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

### *Review of financial results*

Income before taxes was \$329 million in the third quarter of 2008, compared with \$308 million in the third quarter of 2007 and \$288 million in the second quarter of 2008. The increase compared with both prior periods reflects growth in Depositary Receipts, Corporate Trust and Shareowner Services. The increase compared with the third quarter of 2007 was partially offset by a credit monitoring charge (\$24 million) for lost tapes recorded in the third quarter of 2008.

Total fee and other revenue was \$529 million in the third quarter of 2008, an increase of 15% compared with the third quarter of 2007 and an increase of 10% compared with the second quarter of 2008. Both increases were driven by year-over-year growth in issuer services fees reflecting growth in Depositary Receipts, Corporate Trust and Shareowner Services fees. Depositary Receipts benefited from increased corporate actions, new business and increased market share. The increase in Corporate Trust was driven by an increase in non-U.S. Corporate Trust revenue as well as market share gains. The increase in Shareowner Services fees was due to an increased level of corporate actions. The increase in other revenue was also impacted by increased revenue sharing related to the distribution of Dreyfus products.

Net interest revenue increased \$11 million, or 7%, compared with the third quarter of 2007, and decreased \$6 million, or 3%, compared with the second quarter of 2008. The year-over-year increase reflects higher client deposits. The sequential-quarter decrease was driven primarily by a lower level of client deposits.

Average assets were \$34.3 billion in the third quarter of 2008 compared with \$35.2 billion in the second quarter of 2008 and \$30.8 billion in the third quarter of 2007. The change in average assets is driven by average deposit levels. Average deposits were \$29.5 billion in the third quarter of 2008, compared with \$30.6 billion in the second quarter of 2008 and \$26.2 billion in the third quarter of 2007. The increases compared to the third quarter of 2007 reflect higher levels of customer balances in Corporate Trust and Shareowner Services. The decrease in average deposits sequentially is primarily due to lower deposits in Corporate Trust, partially offset by higher activity in Shareowner Services.

Noninterest expense (excluding intangible amortization) increased \$58 million, or 20%, in the third quarter of 2008 compared with the third quarter of 2007 and \$2 million, or 1% (unannualized) sequentially. The increase compared with the third quarter of 2007 reflects the credit monitoring charge related to lost tapes recorded in Shareowner Services, support of business growth and the impact of the second quarter of 2008 annual merit salary increase.



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

Income before taxes totaled \$839 million in the first nine months of 2008 compared with \$781 million in the first nine months of 2007. Excluding intangible amortization, income before taxes increased \$65 million. Fee and other revenue increased \$212 million primarily reflecting the merger with Mellon Financial, an increase in non-U.S. revenue related to the Corporate Trust business, and growth in Depositary Receipts.

Net interest revenue increased \$107 million primarily due to the merger with Mellon Financial and a significant increase in deposits in both the Corporate Trust and Shareowner Services businesses. Noninterest expenses (excluding intangible amortization) increased \$254 million, reflecting the merger with Mellon Financial, expenses associated with revenue growth and the credit monitoring charges for lost tapes recorded in the second and third quarters of 2008.

### Clearing Services segment

(dollar amounts in millions,

3Q08 vs.

Year-to-date

YTD08

unless otherwise noted;

vs.

presented on an FTE basis)

|                                                             | 3Q07      | 4Q07      | 1Q08      | 2Q08      | 3Q08      | 3Q07  | 2Q08 | 2008      | 2007 <sub>(a)</sub> | YTD07 |
|-------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-------|------|-----------|---------------------|-------|
| <b>Revenue:</b>                                             |           |           |           |           |           |       |      |           |                     |       |
| Securities servicing fees - clearing and execution services | \$ 302    | \$ 310    | \$ 265    | \$ 265    | \$ 257    | (15)% | (3)% | \$ 787    | \$ 876              | (10)% |
| Other                                                       | 70        | 47        | 54        | 65        | 64        | (9)   | (2)  | 183       | 127                 | 44    |
| Total fee and other revenue                                 | 372       | 357       | 319       | 330       | 321       | (14)  | (3)  | 970       | 1,003               | (3)   |
| Net interest revenue                                        | 77        | 78        | 74        | 74        | 74        | (4)   | -    | 222       | 226                 | (2)   |
| Total revenue                                               | 449       | 435       | 393       | 404       | 395       | (12)  | (2)  | 1,192     | 1,229               | (3)   |
| Noninterest expense                                         |           |           |           |           |           |       |      |           |                     |       |
| (ex. intangible amortization)                               | 316       | 305       | 274       | 291       | 283       | (10)  | (3)  | 848       | 887                 | (4)   |
| Income before taxes                                         |           |           |           |           |           |       |      |           |                     |       |
| (ex. intangible amortization)                               | 133       | 130       | 119       | 113       | 112       | (16)  | (1)  | 344       | 342                 | 1     |
| Amortization of intangible assets                           | 6         | 6         | 6         | 6         | 8         | 33    | 33   | 20        | 18                  | 11    |
| Income before taxes                                         | \$ 127    | \$ 124    | \$ 113    | \$ 107    | \$ 104    | (18)% | (3)% | \$ 324    | \$ 324              | -%    |
| Pre-tax operating margin                                    |           |           |           |           |           |       |      |           |                     |       |
| (ex. intangible amortization)                               | 30%       | 30%       | 30%       | 28%       | 28%       |       |      | 29%       | 28%                 |       |
| Average assets                                              | \$ 14,869 | \$ 15,526 | \$ 15,618 | \$ 15,576 | \$ 16,294 | 10%   | 5%   | \$ 15,831 | \$ 14,749           | 7%    |
| Average active accounts                                     |           |           |           |           |           |       |      |           |                     |       |
| (in thousands)                                              | 5,064     | 5,069     | 5,170     | 5,280     | 5,442     | 7     | 3    | 5,298     | 5,136               | 3     |
| Average margin loans                                        | \$ 5,287  | \$ 5,301  | \$ 5,245  | \$ 5,791  | \$ 5,754  | 9%    | (1)% | \$ 5,597  | \$ 5,411            | 3%    |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

### Business description

Our Clearing Services segment consists of the Pershing clearing business and a 33.8% equity interest in BNY ConvergeEx, which includes the B-Trade and G-Trade execution businesses that

were sold by the Company to BNY ConvergeEx on Feb. 1, 2008. The B-Trade and G-Trade execution businesses historically contributed approximately \$50-60 million of revenue and \$10-15 million of pre-tax income on a quarterly basis. These businesses were sold at book value.

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

Through our affiliate, BNY ConvergeEx, we provide liquidity and execution management, investment technologies and intermediary and clearing services in over 100 markets. BNY ConvergeEx provides a full suite of global electronic, portfolio and sales trading capabilities, executing more than 230 million U.S. shares and approximately \$729 million in non-U.S. principal each day and clearing more than one million trades daily.

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

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

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

### *Review of financial results*

Income before taxes decreased \$23 million, or 18%, compared with the third quarter of 2007, and decreased \$3 million, or 3% (unannualized), compared with the second quarter of 2008. The decrease compared with the third quarter of 2007 reflects the sale of the B-Trade and G-Trade execution businesses and a settlement received (\$28 million) in the third quarter of 2007 for the early termination of a contract. The sequential decrease primarily relates to normal seasonality, partially offset by business wins resulting from the recent market disruptions.

Total fee and other revenue decreased \$51 million, or 14%, compared with the third quarter of 2007 and \$9 million, or 3%, compared with the second quarter of 2008. The decrease compared with the third

quarter of 2007 reflects the sale of the execution businesses and the third quarter 2007 settlement, partially offset by strong growth in trading activity along with growth in money market and mutual fund fees and record new business wins resulting from the recent market disruptions. The sequential decrease reflects normal seasonality partially offset by new business.

Net interest revenue decreased \$3 million compared with the third quarter of 2007 and was unchanged sequentially. The decrease from the third quarter of 2007 reflects the impact of the lower interest rate environment, partially offset by higher customer balances.

Noninterest expense (excluding intangible amortization) decreased \$33 million, or 10%, compared with the third quarter of 2007 and \$8 million, or 3%, compared with the second quarter of 2008. The decrease compared with the third quarter of 2007 reflects the sale of the execution businesses, partially offset by business growth.

Average assets were \$16.3 billion in the third quarter of 2008 compared with \$15.6 billion in the second quarter of 2008 and \$14.9 billion in the third quarter of 2007. The increase from both prior periods reflects higher cash balances and new business.

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

Income before taxes totaled \$324 million in the first nine months of 2008, unchanged compared with the first nine months of 2007. Excluding intangible amortization, income before taxes increased \$2 million. Fee and other revenue decreased \$33 million, primarily reflecting the sale of the execution businesses, partially offset by strong growth in money market and mutual fund fees and trading activity. Net interest revenue decreased \$4 million primarily due to the lower rate environment. Noninterest expense (excluding intangible amortization) decreased \$39 million primarily reflecting the sale of the execution businesses, partially offset by expenses incurred in support of business growth.



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### Treasury Services segment

(dollar amounts in millions,

3Q08 vs.

Year-to-date

YTD08

unless otherwise noted;

vs.

| presented on an FTE basis)        | 3Q07      | 4Q07      | 1Q08      | 2Q08      | 3Q08      | 3Q07 | 2Q08 | 2008      | 2007 (a)  | YTD07 |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|------|------|-----------|-----------|-------|
| Revenue:                          |           |           |           |           |           |      |      |           |           |       |
| Treasury services                 | \$ 114    | \$ 118    | \$ 121    | \$ 125    | \$ 125    | 10%  | -%   | \$ 371    | \$ 210    | 77%   |
| Other                             | 110       | 125       | 106       | 130       | 137       | 25   | 5    | 373       | 294       | 27    |
| Total fee and other revenue       | 224       | 243       | 227       | 255       | 262       | 17   | 3    | 744       | 504       | 48    |
| Net interest revenue              | 140       | 161       | 182       | 153       | 158       | 13   | 3    | 493       | 351       | 40    |
| Total revenue                     | 364       | 404       | 409       | 408       | 420       | 15   | 3    | 1,237     | 855       | 45    |
| Noninterest expense               |           |           |           |           |           |      |      |           |           |       |
| (ex. intangible amortization)     | 196       | 201       | 205       | 203       | 202       | 3    | -    | 610       | 442       | 38    |
| Income before taxes               |           |           |           |           |           |      |      |           |           |       |
| (ex. intangible amortization)     | 168       | 203       | 204       | 205       | 218       | 30   | 6    | 627       | 413       | 52    |
| Amortization of intangible assets | 7         | 7         | 7         | 7         | 6         | (14) | (14) | 20        | 7         | 186   |
| Income before taxes               | \$ 161    | \$ 196    | \$ 197    | \$ 198    | \$ 212    | 32%  | 7%   | \$ 607    | \$ 406    | 50%   |
| Pre-tax operating margin          |           |           |           |           |           |      |      |           |           |       |
| (ex. intangible amortization)     | 46%       | 50%       | 50%       | 50%       | 52%       |      |      | 51%       | 48%       |       |
| Average loans                     | \$ 13,716 | \$ 14,331 | \$ 15,344 | \$ 15,606 | \$ 14,671 | 7%   | (6)% | \$ 15,205 | \$ 12,721 | 20%   |
| Average assets                    | 21,166    | 21,902    | 24,153    | 21,227    | 22,384    | 6    | 5    | 22,587    | 17,349    | 30    |
| Average deposits                  | 17,772    | 18,092    | 20,056    | 17,316    | 18,397    | 4    | 6    | 18,589    | 13,233    | 40    |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

N/M Not meaningful.

### Business description

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

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

Treasury Services offers leading-edge technology, innovative products, and industry expertise to help its clients optimize cash flow, manage liquidity, and make payments around the world in more than 100 different countries. We maintain a global network of branches, representative offices and correspondent banks to provide comprehensive payment services including funds transfer, cash

management, trade services and liquidity management. We are one of the largest funds transfer banks in the U.S., transferring over \$1.8 trillion daily via more than 170,000 wire transfers.

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

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

*Review of financial results*

Income before taxes was \$212 million in the third quarter of 2008 compared with \$161 million in the

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third quarter of 2007, and \$198 million in the second quarter of 2008. The increase from both prior periods reflects higher capital markets related revenue, higher net interest revenue and tightly controlled expenses. The third quarter of 2008 also includes a \$3 million charge, recorded in noninterest expense, related to auction rate securities in institutional accounts.

Total fee and other revenue increased \$38 million, compared with the third quarter of 2007 and \$7 million compared with the second quarter of 2008. Treasury services fees were up \$11 million from the third quarter of 2007 and unchanged compared with the second quarter of 2008. The increase compared with the third quarter of 2007 reflects higher processing volumes in global payments and cash management. Other revenue increased \$27 million compared with the third quarter of 2007 and \$7 million compared with the second quarter of 2008. Both increases reflect higher capital markets related revenue. The increase from the third quarter of 2007 also includes a higher valuation of our credit derivative portfolio.

The increase in net interest revenue compared with both the third quarter of 2007 and second quarter of 2008 resulted from higher loan and deposit levels and spreads.

Noninterest expense (excluding intangible amortization) increased \$6 million compared with the third quarter of 2007 primarily driven by a \$3 million charge related to auction rate securities in institutional accounts, partially offset by merger-related expense synergies. Noninterest expense was flat sequentially, reflecting strong expense control, partially offset by the previously noted charge.

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

Income before taxes totaled \$607 million in the first nine months of 2008 compared with \$406 million in the first nine months of 2007. Excluding intangible amortization, income before taxes increased \$214 million. Fee and other revenue increased \$240 million primarily reflecting the merger with Mellon Financial, higher global payment and cash management fees due primarily to higher client volumes as well as higher capital markets related revenue and a higher valuation of our credit derivative portfolio. Net interest revenue increased \$142 million primarily due to the merger with Mellon Financial, as well as higher loan and deposit levels and increased spreads. Noninterest expense (excluding intangible amortization) increased \$168 million primarily due to the merger with Mellon Financial.

## Other Segment

(dollar amounts in millions,

Year-to-date

presented on an FTE basis) <sup>(a)</sup>

|                                                                                              | 3Q07  | 4Q07    | 1Q08  | 2Q08     | 3Q08     | 2008     | 2007 <sup>(a)</sup> |
|----------------------------------------------------------------------------------------------|-------|---------|-------|----------|----------|----------|---------------------|
| <b>Revenue:</b>                                                                              |       |         |       |          |          |          |                     |
| Fee and other revenue                                                                        | \$ 77 | \$ (90) | \$ 15 | \$ (109) | \$ (105) | \$ (199) | \$ 153              |
| Net interest revenue                                                                         | 66    | 58      | 81    | (260)    | 6        | (173)    | 50                  |
| Total revenue                                                                                | 143   | (32)    | 96    | (369)    | (99)     | (372)    | 203                 |
| Provision for credit losses                                                                  |       | 20      | 16    | 26       | 29       | 71       | (30)                |
| Noninterest expense (ex. intangible amortization and merger and integration expenses)        | 124   | 156     | 126   | 164      | 91       | 381      | 242                 |
| Income (loss) before taxes (ex. intangible amortization and merger and integration expenses) | 19    | (208)   | (46)  | (559)    | (219)    | (824)    | (9)                 |
| Amortization of intangible assets                                                            | 8     | 7       | 7     | 5        | 1        | 13       | 8                   |
| Merger and integration expenses:                                                             |       |         |       |          |          |          |                     |
| The Bank of New York Mellon Corporation                                                      | 205   | 111     | 121   | 146      | 107      | 374      | 244                 |
| Acquired Corporate Trust Business                                                            | 13    | 13      | 5     | 3        | 4        | 12       | 36                  |

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|                                       |           |           |           |           |           |            |           |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|------------|-----------|
| Total merger and integration expenses | 218       | 124       | 126       | 149       | 111       | 386        | 280       |
| Income (loss) before taxes            | \$ (207)  | \$ (339)  | \$ (179)  | \$ (713)  | \$ (331)  | \$ (1,223) | \$ (297)  |
| Average assets                        | \$ 49,533 | \$ 51,015 | \$ 52,590 | \$ 45,600 | \$ 45,003 | \$ 47,721  | \$ 33,866 |
| Average deposits                      | 17,724    | 18,427    | 17,348    | 15,516    | 13,562    | 15,468     | 12,295    |

(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

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### *Business description*

The Other segment primarily includes:

- the results of the leasing portfolio;
- corporate treasury activities;
- the results of M1BB and Mellon United National Bank; and
- business exits and corporate overhead.

Revenue primarily reflects:

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

Noninterest expense includes:

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

### *Review of financial results*

Income before taxes was a loss of \$331 million for the third quarter of 2008, compared with a loss of \$207 million in the third quarter of 2007, and a loss of \$713 million in the second quarter of 2008.

The Other segment includes the following activity:

In the third quarter of 2008:

- a \$162 million (pre-tax) securities loss associated with other-than-temporary-impairment ( OTTI ) recorded in total fee and other revenue; and
- a \$112 million (pre-tax) loss related to the SILO/LILO settlement recorded in net interest revenue.

In the second quarter of 2008:

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

In the first quarter of 2008:

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

Total fee and other revenue decreased \$182 million compared with the third quarter of 2007 and increased \$4 million sequentially. The decrease compared with the third quarter of 2007 was due primarily to the write-down of certain investments in the securities portfolio.

Net interest revenue was \$6 million in the third quarter of 2008 compared with net interest revenue of \$66 million in the third quarter of 2007 and net interest expense of \$260 million in the second quarter of 2008. The decrease compared with the third quarter of 2007 reflects the SILO/LILO charge recorded in the third quarter of 2008, partially offset by the impact of the changing interest rate environment on Corporate Treasury allocations. The third quarter of 2007 also reflects a \$22 million charge for the negative impact of a required recalculation of the yield on leverage leases.

The provision for credit losses was \$29 million in the third quarter of 2008 compared with \$26 million in the second quarter of 2008. There was no provision for credit losses recorded in the third quarter of 2007. The increase in provision for credit losses compared with the third quarter of 2007 reflects an increase in nonperforming loans.

Noninterest expense (excluding intangible amortization and M&I expenses) decreased \$33 million compared with the third quarter of 2007 and decreased \$73 million sequentially. Both declines were due primarily to lower incentives and the sale of M1BB in June 2008. M&I expenses

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associated with the Mellon Financial merger were \$107 million in the third quarter of 2008. See the Noninterest expense section for the details of M&I expenses.

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

Income before taxes was a loss of \$1.2 billion in the first nine months of 2008 compared with a loss of \$297 million in the first nine months of 2007. Total revenue decreased \$575 million, primarily reflecting the impairment charges described above. Net interest revenue decreased \$223 million reflecting the SILO/LILO charges, partially offset by the impact of the changing interest rate environment on Corporate Treasury allocations. Noninterest

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expenses (excluding intangible amortization and merger and integration expenses) increased \$139 million, reflecting the merger with Mellon Financial, as well as higher professional, legal and other purchased services expense.

### Critical accounting estimates

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

| Critical policy                       | Reference                                         |
|---------------------------------------|---------------------------------------------------|
| <b>Allowance for credit losses</b>    | BNY Mellon's 2007 Annual Report, page 33.         |
| <b>Goodwill and other intangibles</b> | BNY Mellon's 2007 Annual Report, page 34.         |
| <b>Pension accounting</b>             | BNY Mellon's 2007 Annual Report, pages 34 and 35. |

#### *Fair value of financial instruments*

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

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

#### *Fair value Securities*

##### *Level 1*

Recent quoted prices from exchange transactions are used for debt and equity securities that are actively traded on exchanges and for U.S. Treasury securities and U.S. Government securities that are actively traded in highly liquid over the counter markets. We include these securities in Level 1 of the SFAS 157 hierarchy.

##### *Level 2*

For securities where quotes from recent transactions are not available, we determine fair value primarily based on pricing sources with reasonable levels of price transparency that employ financial models or obtain comparisons to similar instruments to arrive at consensus prices. Model-based pricing performed by the pricing sources uses observable inputs for interest rates, paydowns, default rates, home price appreciation or depreciation (severity), foreign exchange rates, option volatilities and other factors. Securities included in this category that are affected by the lack of market liquidity include our Alt-A residential mortgage-backed securities, subprime residential mortgage-backed securities, European floating rate notes and commercial mortgage-backed securities. In addition, we have significant investments in more actively traded agency mortgage-backed securities and the pricing sources derive the prices for these securities largely from quotes they obtain from three major inter-dealer brokers.

The pricing sources receive their daily observed trade price and other information feeds from the interdealer brokers.

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For securities with bond insurance, the pricing sources analyze the financial strength of the insurance provider and include that information in the fair value assessment determination for such securities.

The pricing sources provide an evaluation that represents their good faith opinion, based on information available, as to what a buyer in the marketplace would pay for a security (typically in an institutional round lot position) in a current sale. Given that, on average, less than 1% of the outstanding U.S. dollar debt trades on any given day, the pricing sources generally draw parallels

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from current market activity to generate evaluations for the majority of issues that have not traded. They discontinue pricing any specific security whenever they determine there is insufficient observable data to provide a good faith opinion on price. During the third quarter of 2008, the pricing sources did not discontinue pricing for any securities in our investment securities portfolio.

The prices provided by pricing sources are subject to review and challenges by industry participants, including ourselves.

### *Level 3*

Where we have used our own cash flow models and estimates, we classify them in Level 3 of the SFAS 157 hierarchy. Our Level 3 securities represent 1% of our securities recorded at fair value and include certain asset-backed securities CDOs and other retained interests in securitization transactions.

For details of our securities by SFAS 157 hierarchy level, see Note 12 to the Notes to Consolidated Financial Statements.

More than 95% of our securities are valued by pricing sources with reasonable levels of price transparency. Approximately 1% of our securities are priced based on non-binding dealer quotes and are included in Level 3.

### *Fair value    Derivative financial instruments*

#### *Level 1*

We include derivative financial instruments that are actively traded on exchanges, principally foreign exchange futures and forward contracts, in Level 1 of the SFAS 157 hierarchy.

#### *Level 2*

The majority of our derivative financial instruments are priced using the Company's internal models which use observable inputs for interest rates, pay-downs (both actual and expected), foreign exchange rates, option volatilities and other factors. The valuation process takes into consideration factors such as counterparty credit quality, liquidity, concentration concerns, and results of stress tests.

In order to test the appropriateness of the valuations, we subject the models to review and approval by an

independent internal risk management function, benchmark the models against similar instruments and validate model estimates to actual cash transactions. In addition, we perform detailed reviews and analyses of profit and loss. Valuation adjustments are determined and controlled by a function independent of the area initiating the risk position. As markets and products develop and the pricing for certain products becomes more transparent, we refine our valuation methods. Any changes to the valuation models are reviewed by management to ensure the changes are justified.

To confirm that our valuation policies are consistent with exit price as prescribed by SFAS 157, we reviewed our securities and derivative valuations using recent transactions in the marketplace, pricing services and the results of similar types of transactions. As a result of maximizing observable inputs as required by SFAS 157, in the first quarter of 2008 we began to reflect external credit ratings as well as observable credit default swap spreads for both ourselves as well as our counterparties when measuring the fair value of our derivative positions. Accordingly, the valuation of our derivative positions is sensitive to the current changes in our own credit spreads, as well as those of our counterparties. The cumulative effect of making this derivative valuation adjustment was required by SFAS 157 to be recorded in our earnings beginning in the first quarter of 2008 and decreased foreign exchange and other trading revenue \$50 million in the first nine months of 2008.

Substantially all of our model-priced derivative financial instruments are included in Level 2 of the SFAS 157 hierarchy.

#### *Level 3*

Certain interest rate swaps with counterparties that are highly structured entities require significant judgment and analysis to adjust the value determined by standard pricing models. These interest rate swaps are included in Level 3 of the fair value hierarchy and compose less than 1% of our derivative financial instruments.

For details of our derivative financial instruments by SFAS 157 hierarchy level, see Note 12 to the Notes to Consolidated Financial Statements.

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### *Fair value option*

SFAS 159 provides the option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. Under SFAS 159, fair value is used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in fair value recognized in income. Effective Jan. 1, 2008, we elected the fair value option for \$390 million of existing loans and unfunded loan commitments where the related credit risks are partially managed utilizing other financial instruments which are fair valued in earnings and, as a result, recorded a cumulative effect decrease to retained earnings of \$36 million. Subsequently, \$280 million was repaid in full; accordingly, as of Sept. 30, 2008, only \$110 million of unfunded loan commitments were recorded at fair value. These are valued using quotes from dealers in the loan markets, and we include these in Level 3 of the SFAS 157 hierarchy. See Note 13 to the Notes to Consolidated Financial Statements for additional disclosure regarding SFAS 159. In the third quarter of 2008, we elected fair value accounting for other short-term investments U.S. government-backed commercial paper (\$10.9 billion) and borrowings from Federal Reserve related to asset-backed commercial paper (\$10.9 billion).

### *Fair value Judgments*

In times of illiquid markets and financial stress, actual prices and valuations may significantly diverge from results predicted by models. In addition, other factors can affect our estimate of fair value, including market dislocations, incorrect model assumptions, and unexpected correlations.

These valuation methods could expose us to materially different results should the models used or underlying assumptions be inaccurate. See Basis of Presentation in Note 1 to the Consolidated Financial Statements contained in our 2007 Annual Report on Form 10-K.

### *Other-than-temporary impairment*

We routinely conduct periodic reviews to identify and evaluate each investment security that has an unrealized loss to determine whether OTTI has occurred.

Almost all mortgage-backed securities included in our investment securities portfolio are valued using dealer quotes and vendor prices. Economic models, in conjunction with dealer quotes and vendor prices, are used to determine whether an OTTI has occurred on these securities. Specifically, for each non-agency residential mortgage-backed security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an OTTI impairment has occurred. The scope of this review includes all factors relevant to a possible finding that losses from the underlying residential mortgages might directly impact the investment security, including, among other elements: a thorough evaluation of the credit quality and performance of the security's mortgage collateral; the total credit enhancement, including the current level of subordination protecting the security; a vintage- and sector-specific estimation of the losses expected from the underlying collateral; the timing and velocity of these expected losses and their effect on the projected future cash flows of the security; as well as macro-economic considerations such as, most pertinently, the current and expected decline in home prices on both a national and regional basis. An important driver in the value of mortgage-backed securities in the market is peak-to-trough home values. The peak-to-trough estimates are determined by using several independent sources, including: forecasts of future home price appreciation rates, housing sales data, housing inventory levels, and other significant housing market trends, as well as the forward curve for interest rates. At Sept. 30, 2008, we assumed an additional decline of approximately 15% in national home prices over the next two years and estimated the impact it would have on the cash flows underlying the individual securities. If principal and interest are not expected to be paid, we record the difference between the carrying value and the fair value as a charge to earnings.

HELOC portfolio holdings are regularly evaluated for potential OTTI. The HELOC deals are guaranteed, with credit enhancement provided by a combination of excess spread, over-collateralization, subordination, and a note insurance policy provided by a monoline insurer. For the HELOC holdings, the rating is highly dependent upon the rating of the monoline insurance provider. HELOCs with a current face value of approximately \$740 million and a fair market value

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of approximately \$438 million are guaranteed by various monoline insurers as of Sept. 30, 2008.

As the monoline insurers experience credit rating downgrades and it is determined that the monoline insurer may possibly not be able to meet its obligations, the HELOC holdings guaranteed by those insurers are further evaluated based on the deal collateral and structure without the insurer guarantee. Potential losses are compared to the available total coverage provided by excess spread, over-collateralization and subordination for each bond to determine OTTI.

In addition, we assess OTTI for an appropriate subset of our investment securities subject to EITF 99-20 by testing for an adverse change in cash flows, and utilizing our best estimate of the cash flows that a market participant would use in determining the fair value of the security. Any unrealized loss on a security identified as other than temporarily impaired under EITF 99-20 analysis is charged to earnings.

### **Consolidated balance sheet review**

During the last two weeks of September, our balance sheet realized a significant increase in client deposits, reflecting client reaction to market volatility. At Sept. 30, 2008, total assets grew to \$267.5 billion compared with \$201.2 billion at June 30, 2008 and \$197.7 billion at Dec. 31, 2007. Deposits totaled \$174.2 billion at Sept. 30, 2008, \$127.2 billion at June 30, 2008 and \$118.1 billion at Dec. 31, 2007. Total assets averaged \$198.8 billion for the third quarter of 2008, compared with \$196.0 billion for the second quarter of 2008. Total deposits averaged \$120.3 billion in the third quarter of 2008 and \$119.6 billion in the second quarter of 2008.

Due to the anticipated short-term nature of the client deposits received in the third quarter, we placed them primarily with either the Federal Reserve or in overnight deposits with large global banks. As a result, our percentage of liquid assets to total assets increased to 43% at Sept. 30, 2008 from 30% at June 30, 2008. At Sept. 30, 2008, we had approximately \$70.9 billion of overnight liquid funds and cash of \$45.3 billion (including approximately \$37.9 billion on deposit with the Federal Reserve) for a total of approximately \$116.2 billion of available funds.

Total shareholders' equity was \$27.5 billion at Sept. 30, 2008 compared with \$29.4 billion at Dec. 31, 2007. The decrease reflects higher unrealized mark-to-market losses in the investment securities portfolio.

Included in total assets at Sept. 30, 2008 was \$10.9 billion of U.S. government-backed commercial paper funded by borrowings from the Federal Reserve under its ABCP MMMF Program. The ABCP Program was implemented in the third quarter of 2008 by the Federal Reserve to help restore liquidity to the ABCP markets and thereby help money market funds meet demand for redemptions.

Included in interest-bearing deposits with banks at Sept. 30, 2008 is approximately \$17 billion of certificates of deposits (CDs) purchased from money market mutual funds managed by Dreyfus. The acquisition of these CDs resulted in a loss of \$11 million in the third quarter of 2008, which was recorded in support agreement charges. Approximately \$8 billion of these CDs were repaid without loss in October 2008. In addition, in October 2008, the Company purchased approximately \$6 billion of CDs from the Dreyfus funds. Absent any credit deterioration, losses on these CDs will be amortized to income over the lives of the CDs, which have varying maturities through early 2009.

Investment securities were \$41.6 billion or 16% of assets at Sept. 30, 2008, compared with \$48.7 billion or 25% of assets at Dec. 31, 2007. The decrease in investment securities primarily relates to higher unrealized securities losses as well as paydowns in the mortgage-backed securities portfolio.

Loans were \$59.0 billion or 22% of assets at Sept. 30, 2008, compared with \$50.9 billion or 26% of assets at Dec. 31, 2007. The increase in loan levels was primarily due to higher overdrafts and loans to broker dealers, partially offset by the sale of M1BB in June 2008.

**Table of Contents***Investment securities*

The following table shows the distribution of our securities portfolio:

**Investment securities (at fair value)**

| <i>(in millions)</i>                       | Sept. 30,<br>2008 | Dec. 31,<br>2007 |
|--------------------------------------------|-------------------|------------------|
| Fixed income securities:                   |                   |                  |
| Mortgage and asset-backed securities       | \$ 37,082         | \$ 44,934        |
| Corporate debt                             | 578               | 560              |
| Short-term money market instruments        | 428               | 452              |
| U.S. treasury securities                   | 974               | 437              |
| U.S. government agencies                   | 1                 | 778              |
| State and political subdivisions           | 1,093             | 721              |
| Other foreign debt                         | 10                | 298              |
| Subtotal fixed income securities           | 40,166            | 48,180           |
| Equity securities:                         |                   |                  |
| Money market or fixed income funds         | 1,100             | 406              |
| Other                                      | 224               | 103              |
| Subtotal equity securities                 | 1,324             | 509              |
| Total investment securities fair value     | \$ 41,490         | \$ 48,689        |
| Total investment securities carrying value | \$ 41,615         | \$ 48,698        |

At Sept. 30, 2008, the carrying value of our investment securities portfolio was \$41.6 billion compared with \$48.7 billion at Dec. 31, 2007.

Average investment securities were \$43.5 billion in the third quarter of 2008, compared with \$45.1 billion in the second quarter of 2008.

During the third quarter of 2008, we reassessed the classification of certain asset-backed and mortgage-backed securities. In September 2008, we reclassified approximately \$6.1 billion at fair value of our available-for-sale securities to held-to-maturity. The related unrealized pretax loss of approximately \$634 million included in accumulated other comprehensive income (OCI) remained in OCI and is being amortized as a yield adjustment through earnings over the remaining terms of the securities. We consider the held-to-maturity classification to be more appropriate because we have the ability and the intent to hold the securities to maturity.

The following table provides the detail of our securities portfolio.

| Securities portfolio                | Fair      |       |           |            |         |               |         |    |   |       |
|-------------------------------------|-----------|-------|-----------|------------|---------|---------------|---------|----|---|-------|
| Sept. 30, 2008                      | Value     |       |           |            |         |               |         |    |   |       |
|                                     | Amortized | Fair  | as % of   | Portfolio  | Quarter | Life-to-date/ | Ratings |    |   |       |
|                                     | Cost      | Value | Amortized | Aggregate  | to-date | Impairment    |         |    |   |       |
| <i>(dollar amounts in millions)</i> | Cost      | Value | Cost (a)  | Unrealized | Change  | Charges (b)   | AAA     | AA | A | Other |

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|                                        |               |               |         |                |                |                |         |        |        |        |
|----------------------------------------|---------------|---------------|---------|----------------|----------------|----------------|---------|--------|--------|--------|
| Agencies                               | \$ 11,565     | \$ 11,456     | 99%     | \$ (109)       | \$ (61)        | \$ -           | 100%    | -%     | -%     | -%     |
| Alt-A securities                       | 8,825         | 6,486         | 72      | (2,339)        | (925)          | 246            | 74      | 10     | 10     | 6      |
| Prime/Other mortgage-backed securities | 7,012         | 6,300         | 90      | (712)          | (315)          | 12             | 95      | 3      | 1      | 1      |
| Subprime mortgage securities           | 1,602         | 1,202         | 72      | (400)          | (77)           | 63             | 27      | 54     | 16     | 3      |
| Commercial mortgage-backed securities  | 2,845         | 2,650         | 93      | (195)          | (91)           | -              | 97      | 3      | -      | -      |
| Asset-backed securities CDOs           | 41            | 39            | 11      | (2)            | 35             | 320            | 41      | 10     | 33     | 16     |
| European floating rate notes           | 8,131         | 7,658         | 94      | (473)          | (128)          | -              | 98      | 2      | -      | -      |
| Home equity lines of credit            | 624           | 439           | 58      | (185)          | (37)           | 137            | 23      | 22     | 28     | 27     |
| SIV securities                         | 131           | 130           | 71      | (1)            | (3)            | 51             | 63      | 12     | 9      | 16     |
| Other                                  | 5,364         | 5,130         | 94      | (234)          | (79)           | 90             | 48      | 10     | 21     | 21     |
| <br>Total                              | <br>\$ 46,140 | <br>\$ 41,490 | <br>88% | <br>\$ (4,650) | <br>\$ (1,681) | <br>\$ 919 (b) | <br>85% | <br>6% | <br>5% | <br>4% |

(a) Amortized cost before impairments.

(b) Life-to-date impairment charges include \$301 million associated with the consolidation of TRFC in December 2007.

The unrealized net of tax loss on our total securities available for sale portfolio was \$2.8 billion at Sept. 30, 2008. The unrealized net of tax loss includes \$10 million related to securities available for sale for which the valuation fell within Level 3 of the SFAS 157 hierarchy. See Note 12 in the Notes to Consolidated Financial Statements for an explanation of SFAS 157 fair value hierarchy. The unrealized net of tax loss at June 30, 2008 was \$1.8 billion. The unrealized net of tax loss

increased in the third quarter of 2008 compared with the second quarter of 2008 due to wider credit spreads. At Sept. 30, 2008, the securities in our portfolio continued to remain highly rated, with 91% rated AAA/AA. We continue to have the ability and intent to hold our investment securities until any temporary impairment is recovered, or until maturity.

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We routinely test our investment securities for OTTI. (See Critical estimates for additional disclosure regarding OTTI.) As a result, we recorded an impairment charge and wrote down to current market value certain securities, resulting in a \$162 million pre-tax securities loss comprised of the following:

| Securities losses (impairment charges)       | Quarter ended<br>Sept. 30,<br>2008 |
|----------------------------------------------|------------------------------------|
| (in millions)                                |                                    |
| Alt-A securities                             | \$ 29                              |
| Prime mortgage securities                    | 12                                 |
| Subprime mortgage securities                 | 12                                 |
| Asset-backed securities CDOs                 | 42                                 |
| Home equity line of credit securities        | 10                                 |
| SIV securities                               | 5                                  |
| Other (including \$25 million of FHLMC)      | 52                                 |
| Total securities losses (impairment charges) | \$ 162                             |

If actual delinquencies, default rates and loss severity assumptions worsen, we would expect additional impairment losses to be recorded in future periods.

At the time of purchase, 100% of our Alt-A portfolio was rated AAA. At Sept. 30, 2008, this portfolio had migrated to 74% AAA-rated, 10% AA-rated, 10% A-rated and 6% other. At the time of purchase, the portfolio's weighted-average FICO score was 711 and its weighted-average LTV was 74%. Approximately 50% of the total portfolio is supported by better performing fixed-rate collateral. Finally, the portfolio's weighted-average current credit enhancement is approximately 13%. The unrealized loss on the Alt-A portfolio at Sept. 30, 2008 was \$2.3 billion. Approximately 2% of the Alt-A portfolio represents option adjustable rate mortgages (option ARMS). At Sept. 30, 2008, the securities for which option ARMs was the underlying collateral were rated 83% AAA and 17% AA.

The table below shows the vintages of our Alt-A securities portfolio at Sept. 30, 2008:

| Alt-A vintages at Sept. 30, 2008 | Amortized<br>Cost | Fair<br>Value | Life-to-<br>date<br>Impairment<br>Charges | Fair value<br>as a % of<br>Amortized<br>Cost <sup>(a)</sup> |
|----------------------------------|-------------------|---------------|-------------------------------------------|-------------------------------------------------------------|
| (in millions)                    |                   |               |                                           |                                                             |
| 2007                             | \$ 2,493          | \$ 1,738      | \$ 90                                     | 67%                                                         |
| 2006                             | 2,925             | 1,975         | 108                                       | 65                                                          |
| 2005                             | 2,580             | 2,049         | 48                                        | 78                                                          |
| 2004 and earlier                 | 827               | 724           | -                                         | 88                                                          |
| Total                            | \$ 8,825          | \$ 6,486      | \$ 246                                    | 72%                                                         |

(a) Fair value as a percentage of amortized cost before impairments.

At Sept. 30, 2008, the fair value of our total ABS CDOs was \$51 million. The fair value of this portfolio, net of OTTI, was 11% of par at Sept. 30, 2008. At Sept. 30, 2008, \$12 million of

ABS CDOs are included in trading assets and \$39 million are included in securities available-for-sale. The CDO securities are included in Level 3 in the fair value hierarchy as described in Note 12 to the Notes to Consolidated Financial Statements.

The HELOC securities are tested for impairment based on the condition of the monoline insurer providing credit support and the quality of the underlying deal collateral and structure. Securities were deemed impaired if we expected they would not be repaid in full without the support of the insurer and the insurer was rated below investment grade. The HELOC securities losses in the third quarter of 2008 resulted from both weakening credit support due to below investment grade ratings of certain bond insurers and deterioration of specific securities.

At Sept. 30, 2008, our portfolio included \$130 million of SIV securities. These securities were carried at 71% of par. On Jan. 8, 2008, we were notified of an enforcement action against the SIV related to the securities. This enforcement action will likely result in the liquidation of the SIV. We expect to receive an in-kind vertical slice of the underlying assets held by the SIV upon liquidation. The underlying assets held by the SIV were rated 63% AAA, 12% AA, 9% A and 16% other at Sept. 30, 2008.

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

At Sept. 30, 2008, the fair value of our subprime mortgage securities portfolio was \$1.2 billion with 81% of the portfolio rated AA or higher. The weighted-average current credit enhancement on this portfolio was approximately 35% at Sept. 30, 2008.

The table below shows the vintages of our subprime mortgage securities portfolio at Sept. 30, 2008:

### Subprime vintages at Sept. 30, 2008

|                  | Amortized | Fair     | Life-to-date | Fair value          |
|------------------|-----------|----------|--------------|---------------------|
|                  | Cost      | Value    | Impairment   | as a % of           |
|                  |           |          | Charges      | Amortized           |
| (in millions)    |           |          |              | Cost <sup>(a)</sup> |
| 2007             | \$ 118    | \$ 91    | \$ 24        | 64%                 |
| 2006             | 171       | 144      | 26           | 73                  |
| 2005             | 234       | 143      | 2            | 61                  |
| 2004 and earlier | 1,079     | 824      | 11           | 76                  |
| Total            | \$ 1,602  | \$ 1,202 | \$ 63        | 72%                 |

(a) Fair value as a percentage of amortized cost before impairments.

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We have discontinued accruing interest on \$323 million of securities that have incurred other than temporary impairment, including \$311 million in the available-for-sale portfolio and \$12 million in the trading portfolio, due to uncertainty about collecting the carrying value. In the third quarter of 2008, we received \$6 million of interest and \$27 million of principal payments on these securities.

No gains or losses were recorded on securities sold from the available-for-sale portfolio in the third quarter of 2008.

The effective duration of our mortgage and asset-backed securities at Sept. 30, 2008 was approximately 2.41 years.

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

### Investment securities guaranteed

#### by monoline insurers

| <i>(in millions)</i>                            | Sept. 30,<br>2008       | Dec. 31,<br>2007 |
|-------------------------------------------------|-------------------------|------------------|
| Municipal securities                            | \$ 574                  | \$ 660           |
| Mortgage-backed securities                      | 196                     | 250              |
| Home equity lines of credit securities          | 438                     | 779              |
| Other asset-backed securities                   | 9                       | 10               |
| Total fair value                                | \$ 1,217 <sup>(a)</sup> | \$ 1,699         |
| Amortized cost less write-downs                 | \$ 1,460                | \$ 1,616         |
| Mark-to-market unrealized gain/(loss) (pre-tax) | \$ (243)                | \$ 83            |

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

At Sept. 30, 2008, these securities were rated 22% AAA, 45% AA, and 33% other. In all cases, when purchasing the securities, we reviewed the credit quality of the underlying securities, as well as the insurer.

### Loans

#### Total loans

| <i>(in billions)</i> | Sept. 30,<br>2008 | Dec. 31,<br>2007 |
|----------------------|-------------------|------------------|
| Period-end:          |                   |                  |
| Non-margin           | \$ 53.5           | \$ 45.7          |
| Margin               | 5.5               | 5.2              |
| Total                | \$ 59.0           | \$ 50.9          |
| Quarterly average:   |                   |                  |
| Non-margin           | \$ 41.2           | \$ 41.8          |
| Margin               | 5.8               | 5.3              |
| Total                | \$ 47.0           | \$ 47.1          |

Total loans were \$59.0 billion at Sept. 30, 2008, compared with \$50.9 billion at Dec. 31, 2007. The increase in total loans primarily reflects increased overdrafts and loans to broker-dealers, partially offset by the sale of M1BB (\$1.1 billion). Loans to broker-dealers are primarily short-term and secured. Average total loans were \$47.0 billion in the third quarter of 2008, compared with \$47.2 billion in the second quarter of 2008 and \$47.1 billion in the fourth quarter of 2007. At Sept. 30, 2008, we had less than \$16 million of subprime mortgages in our loan portfolio. These loans, which are included in other residential mortgages, were issued to support our Community Reinvestment Act requirements.

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

| <b>Total exposure - consolidated</b><br><i>(in billions)</i> | <b>Sept. 30, 2008</b> |                             |                       | <b>Dec. 31, 2007</b> |                             |                       |
|--------------------------------------------------------------|-----------------------|-----------------------------|-----------------------|----------------------|-----------------------------|-----------------------|
|                                                              | <b>Loans</b>          | <b>Unfunded commitments</b> | <b>Total exposure</b> | <b>Loans</b>         | <b>Unfunded commitments</b> | <b>Total exposure</b> |
| Non-margin loans:                                            |                       |                             |                       |                      |                             |                       |
| Financial institutions                                       | \$ 19.0               | \$ 25.7                     | \$ 44.7               | \$ 14.1              | \$ 32.2                     | \$ 46.3               |
| Commercial                                                   | 5.7                   | 25.4                        | 31.1                  | 6.0                  | 27.8                        | 33.8                  |
| Subtotal institutional                                       | 24.7                  | 51.1                        | 75.8                  | 20.1                 | 60.0                        | 80.1                  |
| Wealth management loans and mortgages                        | 5.2                   | 2.3                         | 7.5                   | 4.5                  | 1.9                         | 6.4                   |
| Lease financing                                              | 4.1                   | 0.1                         | 4.2                   | 4.9                  | 0.1                         | 5.0                   |
| Commercial real estate                                       | 3.1                   | 1.9                         | 5.0                   | 3.0                  | 1.7                         | 4.7                   |
| Other residential mortgages                                  | 2.6                   | 0.1                         | 2.7                   | 3.1                  | -                           | 3.1                   |
| Overdrafts                                                   | 13.2                  | -                           | 13.2                  | 9.7                  | -                           | 9.7                   |
| Other                                                        | 0.6                   | 0.3                         | 0.9                   | 0.4                  | 0.3                         | 0.7                   |
| Subtotal non-margin loans                                    | 53.5                  | 55.8                        | 109.3                 | 45.7                 | 64.0                        | 109.7                 |
| Margin loans                                                 | 5.5                   | -                           | 5.5                   | 5.2                  | -                           | 5.2                   |
| <b>Total</b>                                                 | <b>\$ 59.0</b>        | <b>\$ 55.8</b>              | <b>\$ 114.8</b>       | <b>\$ 50.9</b>       | <b>\$ 64.0</b>              | <b>\$ 114.9</b>       |

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At Sept. 30, 2008, total exposures were \$114.8 billion, a slight decrease from \$114.9 billion at Dec. 31 2007, as decreased financial institutions and commercial exposure and the sale of M1BB more than offset an increase in overdrafts. Our financial institutions and commercial portfolios comprise our largest concentrated risk. These portfolios make up 66% of our total lending exposure.

On Jan. 1, 2008, we elected the fair value option under SFAS 159 for \$390 million of certain existing loans and unfunded loan commitments where the related credit risks are partially managed utilizing other financial instruments which are fair valued in earnings. In the third quarter of 2008, \$280 million of this exposure was paid in full. At Sept. 30, 2008, \$110 million of unfunded loan commitments were accounted for under the fair value option.

### Financial institutions

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

| Financial institutions<br>portfolio exposure | Sept. 30, 2008 |                         |                   |                |                |  | Dec. 31, 2007 |                         |                   |
|----------------------------------------------|----------------|-------------------------|-------------------|----------------|----------------|--|---------------|-------------------------|-------------------|
|                                              | Loans          | Unfunded<br>commitments | Total<br>exposure | % Inv<br>grade | % due<br><1 yr |  | Loans         | Unfunded<br>commitments | Total<br>exposure |
| (dollar amounts in billions)                 |                |                         |                   |                |                |  |               |                         |                   |
| Securities industry                          | \$ 12.0        | \$ 3.5                  | \$ 15.5           | 94%            | 95%            |  | \$ 6.9        | \$ 5.2                  | \$ 12.1           |
| Asset managers                               | 1.1            | 7.2                     | 8.3               | 94             | 87             |  | 1.2           | 9.9                     | 11.1              |
| Insurance                                    | 0.5            | 6.6                     | 7.1               | 98             | 30             |  | 0.2           | 7.2                     | 7.4               |
| Banks                                        | 4.5            | 2.5                     | 7.0               | 67             | 91             |  | 4.2           | 3.2                     | 7.4               |
| Government                                   | 0.1            | 2.9                     | 3.0               | 98             | 17             |  | 0.1           | 3.2                     | 3.3               |
| Other                                        | 0.8            | 3.0                     | 3.8               | 90             | 51             |  | 1.5           | 3.5                     | 5.0               |
| Total                                        | \$ 19.0        | \$ 25.7                 | \$ 44.7           | 90%            | 73%            |  | \$ 14.1       | \$ 32.2                 | \$ 46.3           |

The financial institutions portfolio exposure was \$44.7 billion at Sept. 30, 2008, compared to \$46.3 billion at Dec. 31, 2007. The change from Dec. 31, 2007 primarily reflects a decrease in all exposure categories with the exception of the securities industry. The increase in exposure to the securities industry primarily reflects increased loans to broker-dealers. Exposures to financial institutions are high quality with 90% meeting the investment grade equivalent criteria of our rating system. These exposures are generally short-term, with 73% expiring within one year and are frequently secured. For example, securities industry and asset managers often borrow against marketable securities held in custody.

Exposure to banks is largely to investment grade counterparties in developed countries. Non-investment grade bank exposures are short term in nature supporting our global trade finance and dollar clearing businesses in developing countries globally. As a conservative measure, our internal credit rating classification for international counterparties caps the rating based upon the

sovereign rating of the country where the counterparty resides regardless of the credit rating of the counterparty or the underlying collateral.

The asset manager portfolio exposures are high quality with 94% meeting our investment grade equivalent ratings criteria. These exposures are generally short term liquidity facilities with the vast majority to regulated mutual funds. At Sept. 30, 2008, we had no exposure to SIVs.

At Sept. 30, 2008, insurance exposure in the table above includes \$122 million of direct credit exposure to five monoline financial guaranty insurers. This exposure decreased nearly 50% from \$239 million at June 30, 2008. We also extend facilities which provide liquidity, primarily for variable rate tax exempt securities wrapped by monoline insurers. The credit approval for these facilities is based on an assessment of the underlying tax exempt issuer and is not solely dependent upon the monoline.



**Table of Contents***Commercial*

The diversity of the commercial portfolio is shown in the following table:

| Commercial portfolio exposure       | Sept. 30, 2008 |                      |                |             |             | Dec. 31, 2007 |                      |          | Total |
|-------------------------------------|----------------|----------------------|----------------|-------------|-------------|---------------|----------------------|----------|-------|
|                                     | Loans          | Unfunded commitments | Total exposure | % Inv grade | % due <1 yr | Loans         | Unfunded commitments | exposure |       |
| <i>(dollar amounts in billions)</i> |                |                      |                |             |             |               |                      |          |       |
| Media and telecom                   | \$ 1.2         | \$ 2.3               | \$ 3.5         | 68%         | 16%         | \$ 1.4        | \$ 2.8               | \$ 4.2   |       |
| Manufacturing                       | 1.3            | 8.0                  | 9.3            | 81          | 20          | 1.9           | 9.2                  | 11.1     |       |
| Energy and utilities                | 1.4            | 6.5                  | 7.9            | 93          | 7           | 1.0           | 6.4                  | 7.4      |       |
| Services and other                  | 1.8            | 8.6                  | 10.4           | 77          | 32          | 1.7           | 9.4                  | 11.1     |       |
| Total                               | \$ 5.7         | \$ 25.4              | \$ 31.1        | 81%         | 20%         | \$ 6.0        | \$ 27.8              | \$ 33.8  |       |

The commercial portfolio exposure decreased to \$31.1 billion at Sept. 30, 2008, from \$33.8 billion at Dec. 31, 2007, primarily reflecting decreased exposure to the manufacturing industry (including \$1.2 billion due to the sale of M1BB) and media and telecom. Approximately 81% of the portfolio is investment grade and 20% of the portfolio matures within one year. Our goal is to migrate towards a predominantly investment grade portfolio, with targeted exposure reductions over the next several years.

We continue to actively monitor automotive industry exposure given ongoing weakness in the domestic automotive industry. At Sept. 30, 2008, total exposures in our automotive portfolio included \$224 million of secured exposure to Big Three automotive manufacturers and a total of \$156 million to 11 suppliers.

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

| Percent of the portfolios that are investment grade | Sept. 30, 2007 | Dec. 31, 2007 | March 31, 2008 | June 30, 2008 | Sept. 30, 2008 |
|-----------------------------------------------------|----------------|---------------|----------------|---------------|----------------|
| Financial institutions                              | 85%            | 88%           | 87%            | 88%           | 90%            |
| Commercial                                          | 80%            | 82%           | 80%            | 83%           | 81%            |

*Wealth Management loans and mortgages*

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

*Lease financings*

We utilize the leasing portfolio as part of our tax cash flow management strategy. The leasing portfolio consisted of non-airline exposures of \$4.0 billion and \$241 million of airline exposures at Sept. 30, 2008. Approximately 95% of the non-airline exposure is investment grade, or investment grade equivalent.

At Sept. 30, 2008, our \$241 million of exposure to the airline industry consisted of a \$19 million real estate lease exposure, as well as the airline-leasing portfolio which included \$85 million to major U.S. carriers, \$122 million to foreign airlines and \$15 million to U.S. regionals.

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During the third quarter of 2008, the airline industry continued to face difficult operating conditions. Higher fuel prices combined with a weaker economic outlook for the fourth quarter of 2008 had a dampening effect on aircraft values in the secondary market. Because of these factors, we continue to maintain a sizable allowance for loan losses against these exposures and to closely monitor the portfolio.

### *Commercial real estate*

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

Our commercial real estate lending activities include both construction facilities and medium-term loans.

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Our client base consists of experienced developers and long-term holders of real estate assets. Loans are approved on the basis of existing or projected cash flow, and supported by appraisals and knowledge of local market conditions. Development loans are structured with moderate leverage, and in most instances, involve some level of recourse to the developer. Our commercial real estate exposure totaled \$5.0 billion at Sept. 30, 2008 compared with \$4.7 billion at Dec. 31, 2007. The increase primarily resulted from loans secured by residential and office buildings and loans to investment grade real estate investment trusts ( REITs ). At Sept. 30, 2008, approximately 75% of our commercial real estate portfolio is secured. The secured portfolio is diverse by project type with approximately 44% secured by residential buildings, approximately 23% secured by office buildings, approximately 9% secured by retail properties and 24% by other categories. Approximately 87% of the unsecured portfolio is allocated to REITs under revolving credit agreements.

At Sept. 30, 2008, our commercial real estate portfolio is comprised of the following concentrations: New York metro 36%; Florida 22%; investment grade REITs 22% and other 20%.

### *Other residential mortgages*

The other residential mortgage portfolio primarily consists of 1-4 family residential mortgage loans. As noted above, at Sept. 30, 2008, we had less than \$16 million in subprime mortgages included in this portfolio.

### *Overdrafts*

Overdrafts primarily relate to custody and securities clearance clients. Overdrafts occur on a daily basis in the custody and securities clearance business and are generally repaid within two business days.

### *Other loans*

Other loans are composed largely of Community Development Corporation and non-mortgage Community Reinvestment Act loans and other consumer loans.

### *Asset quality and allowance for credit losses*

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

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

Focus on investment grade names to support cross-selling;

Avoid single name/industry concentrations, using credit default swaps as appropriate. At Sept. 30, 2008, we used credit default swaps to reduce exposure on \$1.2 billion of loans and commitments; and

At Dec. 31, 2007, we established a target of \$4.5 billion of exposure reduction for specific exposures. In the third quarter, we revised our targeted exposure reduction to \$10 billion. At Sept. 30, 2008, we reduced our targeted exposure by \$8.3 billion. We will continue to review the portfolio to identify opportunities to minimize non-strategic lending activities and reduce risk.

### **Allowance for credit losses**

*(dollar amounts)*

| <i>in millions)</i> | <b>Sept. 30,<br/>2008</b> | June 30,<br>2008 | Dec. 31,<br>2007 | Sept. 30,<br>2007 |
|---------------------|---------------------------|------------------|------------------|-------------------|
| Margin loans        | <b>\$ 5,464</b>           | \$ 5,489         | \$ 5,210         | \$ 4,926          |
| Non-margin loans    | <b>53,578</b>             | 45,079           | 45,721           | 45,930            |

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|                                                                    |           |           |           |           |
|--------------------------------------------------------------------|-----------|-----------|-----------|-----------|
| Total loans                                                        | \$ 59,042 | \$ 50,568 | \$ 50,931 | \$ 50,856 |
| <b>Quarterly activity</b>                                          |           |           |           |           |
| Allowance for credit losses:                                       |           |           |           |           |
| Beginning balance                                                  | \$ 486    | \$ 487    | \$ 510    | \$ 415    |
| Merger with Mellon Financial                                       | -         | -         | -         | 130       |
| Sale of M1BB                                                       |           | (13)      | -         | -         |
| Provision for credit losses                                        | 30        | 25        | 20        | -         |
| Net (charge-off) recoveries                                        | (22)      | (13)      | (36)      | (35)      |
| Total allowance for credit losses                                  | \$ 494    | \$ 486    | \$ 494    | \$ 510    |
| Allowance for loan losses                                          | \$ 365    | \$ 353    | \$ 327    | \$ 332    |
| Allowance for unfunded commitments                                 | 129       | 133       | 167       | 178       |
| Allowance for loan losses as a percent of total loans              | 0.62%     | 0.70%     | 0.64%     | 0.65%     |
| Allowance for loan losses as a percent of non-margin loans         | 0.68%     | 0.78%     | 0.72%     | 0.72%     |
| Total allowance for credit losses as a percent of total loans      | 0.84%     | 0.96%     | 0.97%     | 1.00%     |
| Total allowance for credit losses as a percent of non-margin loans | 0.92%     | 1.08%     | 1.08%     | 1.11%     |

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The total allowance for credit losses was \$494 million or 0.84% of total loans at Sept. 30, 2008, compared with \$510 million, or 1.00% of total loans at Sept. 30, 2007, \$486 million, or 0.96% of total loans at June 30, 2008, and \$494 million, or 0.97% of total loans at Dec. 31, 2007. The decrease in the allowance for credit losses to total loans at Sept. 30, 2008 reflects the higher level of loans at Sept. 30, 2008. The allowance for credit losses increased compared with June 30, 2008, as the \$30 million provision for credit losses more than offset net charge-offs of \$22 million in the third quarter of 2008.

We had \$5.5 billion of secured margin loans on our balance sheet at both Sept. 30, 2008 compared with \$5.2 billion at Dec. 31, 2007. We have rarely suffered a loss on these types of loans and do not allocate any of our allowance for credit losses to them. As a result, we believe that the ratio of total allowance for credit losses to non-margin loans is a more appropriate metric to measure the adequacy of the reserve.

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

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

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

The second element, higher risk rated credits, is based on the assignment of loss factors for each specific risk category of higher risk credits. We rate each credit in our portfolio that exceeds \$1 million and assign the credits to specific risk pools.

A potential loss factor is assigned to each pool and an amount is included in the allowance equal to the product of the amount of the loan in the pool and the risk factor. Reviews of higher risk rated loans are conducted quarterly and the loan's rating is updated as necessary. We prepare a loss migration analysis and compare our actual loss experience to the loss factors on an annual basis to attempt to ensure the accuracy of the loss factors assigned to each pool.

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

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

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



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

**Allocation of****allowance for****credit losses**

|                                          | Sept. 30,<br>2008 | June 30,<br>2008 | Dec. 31,<br>2007 | Sept. 30,<br>2007 |
|------------------------------------------|-------------------|------------------|------------------|-------------------|
| Commercial                               | 56%               | 55%              | 60%              | 57%               |
| Other residential mortgages              | 14                | 12               | 5                | 5                 |
| Commercial real estate                   | 6                 | 6                | 4                | 2                 |
| Wealth management loans<br>and mortgages | 3                 | 3                | 3                | 3                 |
| Foreign                                  | 2                 | 2                | 5                | 5                 |
| Unallocated                              | 19                | 22               | 23               | 28                |
| Total                                    | 100%              | 100%             | 100%             | 100%              |

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

The increase in allowance for credit losses for other residential mortgages from June 30, 2008 resulted from an increase in the allowance allocated to other residential mortgages reflecting the current market environment. The percentage of the unallocated allowance for credit losses was 19% at Sept. 30, 2008, down from 22% at June 30, 2008 and 28% at Sept. 30, 2007. The unallocated allowance reflects various factors in the current credit environment and is also available to, among other things, absorb further deterioration across all of our portfolios resulting from the current economic environment. At Sept. 30, 2008, if the unallocated allowance, as a percent of the total allowance, was 5% higher or lower, the allowance would have increased or decreased by approximately \$25 million, respectively.

The credit rating assigned to each credit is another significant variable in determining the allowance. If each credit were rated one grade better, the allowance would have decreased by \$107 million, while if each credit were rated one grade worse, the allowance would have increased by \$298 million. Similarly, if the loss given default were one rating worse, the allowance would have increased by \$34 million, while if the loss given default were one rating better, the allowance would have decreased by \$58 million.

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

*Nonperforming assets***Nonperforming assets**

| <i>(dollar amounts in millions)</i> | Sept. 30,<br>2008 | June 30,<br>2008 | Dec. 31,<br>2007 |
|-------------------------------------|-------------------|------------------|------------------|
| Loans:                              |                   |                  |                  |
| Commercial real estate              | \$ 118            | \$ 106           | \$ 40            |
| Other residential mortgages         | 75                | 55               | 20               |
| Commercial                          | 65                | 52               | 39               |
| Foreign                             | 1                 | 60               | 87               |

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|                                                            |        |        |        |
|------------------------------------------------------------|--------|--------|--------|
| Wealth management loans and mortgages                      | -      | -      | -      |
| Total nonperforming loans                                  | 259    | 273    | 186    |
| Other assets owned                                         | 8      | 6      | 4      |
| Total nonperforming assets                                 | \$ 267 | \$ 279 | \$ 190 |
| Nonperforming assets ratio                                 | 0.5%   | 0.6%   | 0.4%   |
| Allowance for loan losses/<br>nonperforming loans          | 140.9% | 129.3% | 175.8% |
| Allowance for loan losses/<br>nonperforming assets         | 136.7% | 126.5% | 172.1% |
| Total allowance for credit losses/<br>nonperforming loans  | 190.7% | 178.0% | 265.6% |
| Total allowance for credit losses/<br>nonperforming assets | 185.0% | 174.2% | 260.0% |

The sequential quarter decrease in nonperforming assets primarily resulted from \$40 million of payments and \$12 million of charge-offs on loans to foreign SIVs. The decreases were partially offset by an increase of \$20 million in other residential mortgages, a net increase of \$19 million for a loan to a newspaper publisher and a \$13 million commercial real estate loan. The ratio of allowance for loan losses to nonperforming assets was 136.7% at Sept. 30, 2008 compared with 126.5% at June 30, 2008.

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

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principal and interest are current or they become fully collateralized.

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

| <i>(in millions)</i>           | Sept. 30,<br>2008 | June 30,<br>2008 | Dec. 31,<br>2007 |
|--------------------------------|-------------------|------------------|------------------|
| Balance at beginning of period | \$ 279            | \$ 215           | \$ 37            |
| Additions                      | 66                | 98               | 187              |
| Net charge-offs                | (22)              | (13)             | (33)             |
| Paydowns/sales                 | (57)              | (22)             | (4)              |
| Other                          | 1                 | 1                | 3                |
| Balance at end of period       | \$ 267            | \$ 279           | \$ 190           |

Loans past due 90 days or more as to principal or interest totaled \$335 million at Sept. 30, 2008, compared with \$334 million at June 30, 2008.

Past due loans at Sept. 30, 2008 were primarily comprised of loans to an asset manager that has filed for bankruptcy (see Legal Proceedings).

These loans are well secured, largely by cash and high-grade fixed income securities, and are in the process of collection.

Interest income would have increased by \$4.4 million and \$1.1 million for the third quarters of 2008 and 2007 if loans on nonaccrual status at Sept. 30, 2008 and 2007 had been performing for the entire period. On a year-to-date basis, interest income would have increased by \$7.7 million and \$2.3 million for 2008 and 2007 had loans on nonaccrual status been performing for the entire period.

**Impaired loans**

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

**Impaired loans**

| <i>(in millions)</i>                                        | Sept. 30,<br>2008 | June 30,<br>2008 | Dec. 31,<br>2007 | Sept. 30,<br>2007 |
|-------------------------------------------------------------|-------------------|------------------|------------------|-------------------|
| Impaired loans with an allowance                            | \$ 151            | \$ 186           | \$ 141           | \$ 13             |
| Impaired loans without an allowance <sup>(a)</sup>          | 31                | 25               | 17               | 2                 |
| Total impaired loans                                        | \$ 182            | \$ 211           | \$ 158           | \$ 15             |
| Allowance for impaired loans <sup>(b)</sup>                 | \$ 40             | \$ 37            | \$ 34            | \$ 2              |
| Average balance of impaired loans during quarter            | 184               | 185              | 51               | 16                |
| Interest income recognized on impaired loans during quarter | -                 | -                | -                | 0.2               |

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

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

**Deposits**

During the market turmoil that began in mid-September 2008, deposits on the Company's balance sheet increased significantly, reflecting clients seeking a safe haven during the volatile markets. Total deposits were \$174.2 billion at Sept. 30, 2008, compared with \$118.1 billion at Dec. 31, 2007. Noninterest-bearing deposits were \$81.7 billion at Sept. 30, 2008, compared with \$32.4 billion at Dec. 31, 2007. Interest-bearing deposits were \$92.5 billion at Sept. 30, 2008, compared with \$85.7 billion at Dec. 31, 2007.

**Support agreements**

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As a result of the market events in the third quarter of 2008, the Company voluntarily provided support to clients invested in money market mutual funds, cash sweep funds and similar collective funds, managed by our affiliates, impacted by the Lehman bankruptcy. The support agreements relate to:

the following five commingled cash funds used primarily for overnight custody cash sweeps: DF Temporary Investment Fund, EB SMAM Short Term Investment Fund, EB Temporary Investment Fund, EB Daily Liquidity Money Market Fund and The Pooled Employee Daily Liquidity Fund;  
the BNY Mellon Institutional Cash Reserve Fund used for the reinvestment of cash collateral within the Company's securities lending business; and  
four Dreyfus money market funds: Dreyfus Liquid Assets Inc., Dreyfus Cash Management Plus, Inc., Dreyfus BASIC Money Market Fund Inc. and Dreyfus Worldwide Dollar Money Market Fund, Inc.

These support agreements are designed to enable these funds with Lehman holdings to continue to operate at a stable share price of \$1.00. We recorded support agreement charges of \$726 million (pre-tax), or \$0.37 per share, in the third quarter of 2008 and \$731 million (pre-tax), or \$0.38 per share, in the first nine months of 2008. These charges reflect our estimate of the potential liability of Lehman at a value of 13% in the third quarter and include an accrual for the estimated loss in revenue under our securities lending fee arrangements for the impact of the Lehman securities.

At Oct. 31, 2008, our additional potential exposure to support agreements was approximately \$313 million, based on the securities subject to these agreements being valued at zero and the NAV of the

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related funds declining below established thresholds. This exposure includes agreements covering Lehman securities, as well as previously existing agreements covering SIV exposure. Future realized support agreement charges will principally depend on the price of Lehman securities, fund performance and the number of clients that accept our offer of support.

In addition, during the third quarter of 2008, we determined we would offer to support certain clients holding auction rate securities in the Wealth management (\$15 million) and Treasury Services segments (\$3 million).

## **Liquidity and dividends**

We maintain our liquidity through the management of our assets and liabilities, utilizing worldwide financial markets. The diversification of liabilities reflects our efforts to maintain flexibility of funding sources under changing market conditions. Stable core deposits from our securities servicing, wealth management and treasury services businesses are generated through our diversified network and managed with the use of trend studies and deposit pricing. The use of derivative products such as interest rate swaps and financial futures enhances liquidity by enabling us to issue long-term liabilities with limited exposure to interest rate risk. Liquidity also results from the maintenance of a portfolio of assets that can be easily sold and the monitoring of unfunded loan commitments, thereby reducing unanticipated funding requirements. Unrealized losses in the securities portfolio have not had an adverse impact on our liquidity. Liquidity is managed on both a consolidated basis and at The Bank of New York Mellon Corporation parent company ( Parent ).

The market turmoil that began in mid-September 2008 resulted in a significant increase in our liquid assets. At Sept. 30, 2008, we had approximately \$70.9 billion of overnight liquid funds and cash of \$45.3 billion (including approximately \$37.9 billion on deposit with the Federal Reserve) for a total of approximately \$116.2 billion of available funds. This compares with overnight liquid funds and cash of \$60 billion at June 30, 2008 and \$50 billion at Dec. 31, 2007. Our liquid assets to total assets were 43% at Sept. 30, 2008 compared with 30% at June 30, 2008 and 25% at Dec. 31, 2007. This increase primarily reflects a significant increase in client deposits, reflecting client reactions to market volatility.

On an average basis for the first nine months of 2008 and 2007, non-core sources of funds such as money market rate accounts, certificates of deposits greater than \$100,000, federal funds purchased and other borrowings were \$23.2 billion and \$17.8 billion. The increase primarily reflects the merger with Mellon Financial. Average foreign deposits, primarily from our European-based securities servicing business, were \$68.5 billion and \$45.2 billion for the first nine months of 2008 and 2007, respectively. The increase in foreign deposits reflects greater liquidity from our corporate trust and custody businesses, the merger with Mellon Financial and the transition of deposits in 2007 related to the Acquired Corporate Trust Business. Domestic savings and other time deposits averaged \$7.8 billion for the first nine months of 2008, compared with \$1.4 billion for the first nine months of 2007. The increase reflects the merger with Mellon Financial and a large government agency deposit that was placed with the Company in the first half of 2008. A significant reduction in our securities servicing businesses would reduce our access to deposits.

Average payables to customers and broker-dealers were \$5.5 billion for the first nine months of 2008 and \$5.1 billion for the first nine months of 2007. Long-term debt averaged \$16.7 billion and \$11.3 billion for the first nine months of 2008 and 2007, respectively. The increase in long-term debt primarily reflects the merger with Mellon Financial. Average noninterest-bearing deposits increased to \$28.2 billion in the first nine months of 2008 from \$18.9 billion in the first nine months of 2007, primarily reflecting the merger with Mellon Financial, as well as the substantial increase in customer deposits in September.

The Parent has five major sources of liquidity:

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

At Sept. 30, 2008, our bank subsidiaries had the ability to pay dividends of approximately \$2.1 billion to the Parent without the need for a regulatory waiver. This dividend capacity would

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increase in the remainder of 2008 to the extent of the banks' net income less dividends. At Sept. 30, 2008, nonbank subsidiaries of the Parent had liquid assets of approximately \$0.8 billion. These assets could be liquidated and the proceeds delivered by dividend or loan to the Parent.

For the quarter ended Sept. 30, 2008, the Parent's quarterly average commercial paper borrowings were \$32 million compared with \$46 million for the quarter ended Sept. 30, 2007. The Parent had cash of \$3.6 billion at Sept. 30, 2008, compared with \$4.4 billion at Dec. 31, 2007. Commercial paper outstanding issued by the Parent were \$43 million and \$65 million at Sept. 30, 2008 and Dec. 31, 2007, respectively. Net of commercial paper outstanding, the Parent's cash position at Sept. 30, 2008 decreased by \$0.8 billion compared with Dec. 31, 2007. The decrease in cash held by the Parent reflects repayments of long-term debt that matured in the first nine months of 2008. The Parent's liquidity target is to have sufficient cash on hand to meet its obligations over the next 12 months without the need to take dividends from its banks or issue debt.

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

- shareholders' equity of \$5 billion;
- a ratio of Tier I capital plus the allowance for credit losses to nonperforming assets of at least 2.5;
- a double leverage ratio less than 1.3; and
- adequate capitalization of all our banks for regulatory purposes.

We are currently in compliance with these covenants. There were no borrowings under this facility at Sept. 30, 2008.

We also have the ability to access the capital markets. In July 2007, we filed an S-3 shelf registration statement with the SEC covering the issuance of an unlimited amount of debt, common stock, preferred stock and trust preferred securities.

Access to the capital markets is partially dependent on our credit ratings, which, as of Sept. 30, 2008 were as follows:

### Debt ratings at Sept. 30, 2008

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

During the third quarter of 2008, Fitch Ratings revised the rating outlook of the Parent and its affiliates to Stable from Positive. Fitch affirmed all other ratings on our debt.

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The Parent's major uses of funds are payment of dividends, principal and interest on its borrowings, acquisitions and additional investments in its subsidiaries. The Parent has \$240 million of long-term debt that will become due in the fourth quarter of 2008 and \$925 million that will become due in 2009.

The Parent has the option to call \$274 million of subordinated debt in the fourth quarter of 2008, which it expects to call and refinance if market conditions are favorable.

In the third quarter of 2008, \$1.1 billion of the Company's senior debt matured. During the third quarter of 2008, we issued \$750 million of 5.125% senior medium term notes due in 2013. During the third quarter, we also issued \$76 million of medium-term subordinated notes bearing interest at rates 5.50% to 6.15%. The notes, which qualify as Tier II capital, are due in 2023 and 2033.

Double leverage is the ratio of investment in subsidiaries divided by our consolidated equity plus trust preferred securities. Our double leverage ratio at Sept. 30, 2008 and 2007 was 102.78% and 97.42%, respectively. Our target double leverage ratio is a maximum of 120%. The double leverage ratio is monitored by regulators and rating agencies and is an important constraint on our ability to invest in our subsidiaries and to expand our businesses.

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Pershing LLC, an indirect subsidiary of the Company, has committed and uncommitted lines of credit in place for liquidity purposes. The committed line of credit of \$705 million with ten financial institutions matures in March 2009. In the third quarter of 2008, the average borrowing against this line of credit was \$411 million. Additionally, Pershing had another committed line of credit for \$125 million that matures September 2009. The average borrowing against this line of credit was \$1 million during the third quarter of 2008. Pershing LLC has four separate uncommitted lines of credit amounting to \$925 million in aggregate. Average daily borrowing under these lines was \$33 million, in aggregate, during the third quarter of 2008.

Pershing Limited, an indirect U.K.-based subsidiary of the Company, has committed and uncommitted lines of credit in place for liquidity purposes. The committed lines of credit of \$275 million with four financial institutions matures in March 2009. In the third quarter of 2008, the average borrowing against this line of credit was \$6 million. Pershing Limited has three separate uncommitted lines of credit amounting to \$250 million in aggregate. Average daily borrowing under these lines was \$117 million, in aggregate, during the third quarter of 2008.

### Statement of cash flows

Cash provided by operating activities was \$1.5 billion for the first nine months of 2008, compared with \$4.2 billion provided by operating activities for the nine months ended Sept. 30, 2007. In the first nine months of 2008, earnings were a significant source of funds. Cash flows from operations in the first nine months of 2007 were principally the result of changes in trading activities and earnings. In the first nine months of 2008, cash used for investing activities was \$37.6 billion compared with \$19.3 billion in the first nine months of 2007. In the first nine months of 2008, change in interest-bearing deposits and net principal disbursed on loans to customers were significant uses of funds. In the first nine months of 2007 purchases of securities available-for-sale and change in interest-bearing deposits were a significant use of funds.

Through Sept. 30, 2008, cash provided by financing activities was \$75.0 billion, compared to \$18.3 billion in the first nine months of 2007. In the first nine months of 2008, deposits and other borrowed funds were significant sources of funds, partially offset by the change in commercial paper and repayments of long-term debt. In the first nine months of 2007, deposits were a significant source of funds.

## Capital

### Capital data

| <i>(dollar amounts in millions<br/>except per share amounts;<br/>common shares in thousands)</i> | Sept. 30,<br>2008    | Dec. 31,<br>2007 | Sept. 30,<br>2007 |
|--------------------------------------------------------------------------------------------------|----------------------|------------------|-------------------|
| Average shareholders equity to average assets ratio                                              | 14.08%               | 15.10%           | 15.60%            |
| <b>At period-end:</b>                                                                            |                      |                  |                   |
| Total shareholders equity                                                                        | \$ 27,513            | \$ 29,403        | \$ 28,957         |
| Tier I capital ratio <sup>(a)</sup>                                                              | 9.34%                | 9.32%            | 9.12%             |
| Total (Tier I plus Tier II) capital ratio                                                        | 12.84%               | 13.25%           | 13.05%            |
| Leverage capital ratio                                                                           | 6.46%                | 6.53%            | 6.81%             |
| Tangible common equity                                                                           | \$ 7,627             | \$ 9,171         | \$ 9,054          |
| Tangible common equity to assets ratio <sup>(b)(c)</sup>                                         | 3.88% <sup>(c)</sup> | 5.24%            | 5.60%             |
| Tangible common equity to average assets ratio <sup>(b)(c)</sup>                                 | 4.41% <sup>(c)</sup> | 5.38%            | 5.61%             |
| Book value per common share                                                                      | \$ 23.97             | \$ 25.66         | \$ 25.43          |
| Tangible book value per common share                                                             | \$ 6.65              | \$ 8.00          | \$ 7.95           |
| Dividend per share                                                                               | \$ 0.24              | \$ 0.24          | \$ 0.24           |
| Dividend yield                                                                                   | 2.9%                 | 2.0%             | 2.2%              |
| Closing common stock price per share                                                             | \$ 32.58             | \$ 48.76         | \$ 44.14          |
| Market capitalization                                                                            | \$ 37,388            | \$ 55,878        | \$ 50,266         |
| Common shares outstanding                                                                        | 1,147,567            | 1,145,983        | 1,138,682         |

(a) The consolidated target Tier I capital ratio is 8.00%.

(b) Common equity less goodwill and intangible assets plus the benefit of the deferred tax liabilities associated with non-tax deductible intangible assets and tax deductible goodwill, divided by total assets less goodwill and intangible assets. The deferred tax liability associated with non-tax deductible intangible assets totaled \$1.91 billion, \$2.01 billion and \$1.95 billion, respectively. The deferred tax liability associated with tax-deductible goodwill totaled \$577 million, \$495 million and \$468 million, respectively.

(c) At Sept. 30, 2008, total and average assets were adjusted for the deposits placed with the Federal Reserve of \$37.9 billion and other short-term investments U.S. government-backed commercial paper of \$10.9 billion. The average impact of these assets was \$3.5 billion in the third quarter of 2008. Both of these

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*sets of assets are assigned a zero risk-weighting by the regulators.*

Shareholders' equity was \$27.5 billion at Sept. 30, 2008 compared with \$29.4 billion at Dec. 31, 2007. The decrease resulted from a \$2.8 billion unrealized, net of tax loss on our total securities portfolio at Sept. 30, 2008. The unrealized net of tax loss at Dec. 31, 2007 was \$342 million. During the first nine months of 2008, we retained \$528 million of earnings. Accumulated other comprehensive income declined \$2.5 billion reflecting the decrease in the fair value of the securities portfolio.

In October 2008, we declared a quarterly common stock dividend of \$0.24 per share that was paid on

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Nov. 3, 2008, to shareholders of record as of the close of business on Oct 24, 2008.

The Tier I capital ratio varies depending on the size of the balance sheet at quarter-end. The balance sheet size fluctuates from quarter to quarter based on levels of customer and market activity. In general, when servicing clients are more actively trading securities, deposit balances and the balance sheet as a whole are higher.

Our Tier I capital ratio was 9.34% at Sept. 30, 2008, compared with 9.33% at June 30, 2008 and 9.32% at Dec. 31, 2007.

At Sept. 30, 2008, our total assets were \$267.5 billion compared with \$197.7 billion at Dec. 31, 2007. The higher level of assets primarily resulted from higher client deposits, reflecting client reaction to market volatility. The increase in assets had minimal impact on the Tier I capital ratio as the assets were primarily placed in cash or highly liquid assets that are assigned a zero or 20% risk weighting by the regulators.

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

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

Our tangible common equity to average assets ratio was 3.88% at Sept. 30, 2008, down from 4.62% at June 30, 2008 and 5.24% at Dec. 31, 2007. Our tangible common equity to average assets ratio was 4.41% at Sept. 30, 2008 compared with 4.76% at June 30, 2008 and 5.38% at Dec. 31, 2007. The decline in both of these ratios since Dec. 31, 2007 reflects the unrealized mark-to-market securities loss mentioned above.

### *Troubled Asset Relief Program*

On Oct. 14, 2008, the U.S. government announced the TARP CPP under the EESA. The intention of this program is to encourage U.S. financial institutions to build capital, to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Initially, nine large financial institutions agreed to participate in the program. On Oct. 14, 2008, the Company announced that it would be part of the initial group of nine institutions in which the U.S. Treasury would purchase an equity stake. The Company agreed to issue and sell to the U.S. Treasury preferred stock and a warrant to purchase shares of common stock in accordance with the terms of the CPP for an aggregate purchase price of \$3 billion. As a result on Oct. 28, 2008, we issued \$3 billion of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, and a warrant, as described below, to the U.S. Treasury. The Series B preferred stock will pay cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of the investment and thereafter at a rate of 9% per annum. Dividends will be payable quarterly in arrears on March 20, June 20, Sept. 20 and Dec. 20 of each year. The Series B preferred stock can only be redeemed within the first three years with the proceeds of at least \$750 million from one or more qualified equity offerings. After Dec. 20, 2011, the Series B preferred stock may be redeemed, in whole or in part, at any time at our option, at a price equal to 100% of the issue price plus any accrued and unpaid interest. Redemption of the Series B preferred stock at any time will be subject to the prior approval of the Federal Reserve.

Issuance of the Series B preferred shares places restrictions on our common stock dividend and repurchases of common stock. Prior to the earlier of (i) the third anniversary of the closing date or (ii) the date on which the Series B preferred stock is redeemed in whole or the U.S. Treasury has transferred all of the Series B preferred stock to unaffiliated third parties, the consent of the U.S. Treasury is required to:

Pay any dividend on our common stock other than regular quarterly dividends of not more than our current quarterly dividend of \$0.24 per share; or

Redeem, purchase or acquire any shares of common stock or other capital stock or other equity securities of any kind of the Company or

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any trust preferred securities issued by the Company or any affiliate except in connection with (i) any benefit plan in the ordinary course of business consistent with past practice; (ii) market-making, stabilization or customer facilitation transactions in the ordinary course or; (iii) acquisitions by the Company as trustees or custodians.

In addition, until such time as the U.S. Treasury ceases to own any debt or equity securities of the Company acquired pursuant to the Oct. 28, 2008 closing or exercise of the warrant described below, the Company must ensure that its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including so-called golden parachute, severance and employment agreements (collectively, Benefit Plans ) with respect to its senior executive officers (as defined in the EESA and regulations thereunder), comply with Section 111(b) of the EESA as implemented by any guidance and regulations issued and in effect on Oct. 28, 2008.

The Series B preferred stock qualifies as Tier I capital. Including the Series B preferred stock, the Tier I capital ratio at Sept. 30, 2008 would have been approximately 12%.

In connection with the issuance of the Series B preferred stock, we issued a warrant to purchase 14,516,129 shares of our common stock to the U.S. Treasury. The warrant has a 10-year term and an exercise price of \$31.00 per share. The warrant is immediately exercisable, in whole or in part. Exercise must be on a cashless basis unless the Company agrees to a cash exercise. However, the U.S. Treasury has agreed that it will not transfer or exercise the warrant for more than 50% of the shares covered until the earlier of (i) the date on which we receive

aggregate gross proceeds of not less than \$3 billion from one or more qualified equity offerings, and (ii) Dec. 31, 2009. If the Company completes one or more qualified equity offerings on or prior to Dec. 31, 2009 that results in the Company receiving aggregate gross proceeds of not less than \$3 billion, the number of shares of common stock originally covered by the warrant will be reduced by one-half. The U.S. Treasury will not exercise voting power associated with any shares underlying the warrant. The warrants will be classified as permanent equity under GAAP.

The issuance of the Series B preferred stock is expected to reduce fully diluted earnings per share by approximately \$0.02 in the fourth quarter of 2008 and approximately \$0.10 in 2009.

### Capital adequacy

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

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

### Consolidated and primary bank subsidiaries capital ratios

|                                             | Sept. 30, 2008 |                             | Dec. 31, 2007 |                      |            | Sept. 30, 2007 |                      |        |
|---------------------------------------------|----------------|-----------------------------|---------------|----------------------|------------|----------------|----------------------|--------|
|                                             | Consolidated   | The Bank of New York Mellon | Consolidated  | The Bank of New York | Bank, N.A. | Consolidated   | The Bank of New York | Mellon |
| Tier I <sup>(a)</sup> <sup>(b)</sup>        | 9.34%          | 8.26%                       | 9.32%         | 8.24%                | 8.49%      | 9.12%          | 7.58%                | 9.82%  |
| Total capital <sup>(b)</sup> <sup>(c)</sup> | 12.84          | 11.48                       | 13.25         | 11.82                | 12.14      | 13.05          | 10.30                | 12.39  |
| Leverage <sup>(b)</sup>                     | 6.46           | 5.89                        | 6.53          | 5.64                 | 8.06       | 6.81           | 5.46                 | 8.51   |

<sup>(a)</sup> Tier I capital consists, generally, of common equity, trust-preferred securities (subject to limitations in 2009), and certain qualifying preferred stock, less goodwill and most other intangibles. Beginning in the fourth quarter of 2009, the Series B preferred stock issued to the U.S. Treasury as part of the TARP capital purchase program will be included in Tier I capital.

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- (b) *For a banking institution to qualify as well capitalized , its Tier I, Total (Tier I plus Tier II) and leverage capital ratios must be at least 6%, 10% and 5%, respectively. To qualify as adequately capitalized , Tier I, Total and leverage capital ratios must be at least 4%, 8% and 3%.*
- (c) *Total capital consists of Tier I capital plus Tier II capital. Tier II capital consists, generally, of certain qualifying preferred stock and subordinated debt and a portion of the allowance for credit losses.*

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

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

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

### Risk-based and leverage

#### capital ratios <sup>(a)</sup>

| <i>(in millions)</i>                        | Sept. 30,<br>2008 | Dec. 31,<br>2007 | Sept. 30,<br>2007 |
|---------------------------------------------|-------------------|------------------|-------------------|
| Tier I capital                              |                   |                  |                   |
| Common shareholders' equity                 | \$ 27,513         | \$ 29,403        | \$ 28,957         |
| Trust-preferred securities                  | 1,719             | 2,030            | 2,040             |
| Adjustments for:                            |                   |                  |                   |
| Goodwill & other intangibles <sup>(b)</sup> | (20,462)          | (20,718)         | (20,361)          |
| Pensions                                    | 177               | 246              | 477               |
| Securities valuation allowance              | 2,786             | 339              | -                 |
| Merchant banking investment                 | (45)              | (41)             | -                 |
| Total Tier I capital                        | 11,688            | 11,259           | 11,113            |
| Qualifying unrealized equity security gains | -                 | 2                | 5                 |
| Qualifying subordinate debt                 | 3,888             | 4,257            | 4,280             |
| Qualifying allowance for credit losses      | 494               | 494              | 510               |
| Tier II capital                             | 4,382             | 4,753            | 4,795             |
| Total risk-based capital                    | \$ 16,070         | \$ 16,012        | \$ 15,908         |
| Total risk-adjusted assets                  | \$ 125,125        | \$ 120,866       | \$ 121,895        |

<sup>(a)</sup> On a regulatory basis.

<sup>(b)</sup> Includes a deferred tax liability of \$1.91 billion, \$2.01 billion and \$1.95 billion, respectively, associated with non-tax deductible identifiable intangible assets.

### Trading activities

The fair value and notional amounts of our financial instruments held for trading purposes at Sept. 30, 2008 and Dec. 31, 2007 are as follows:

#### Trading account

| <i>(in millions)</i>          | Sept. 30, 2008     |                                     |             | Dec. 31, 2007      |                      |             |
|-------------------------------|--------------------|-------------------------------------|-------------|--------------------|----------------------|-------------|
|                               | Notional<br>Amount | Fair value <sup>(a)</sup><br>Assets | Liabilities | Notional<br>Amount | Fair value<br>Assets | Liabilities |
| Interest rate contracts:      |                    |                                     |             |                    |                      |             |
| Futures and forward contracts | \$ 125,010         | \$ -                                | \$ 2        | \$ 81,738          | \$ -                 | \$ 95       |

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|                                                   |         |          |          |         |          |          |
|---------------------------------------------------|---------|----------|----------|---------|----------|----------|
| Swaps                                             | 369,038 | 2,481    | 2,133    | 363,809 | 2,295    | 1,655    |
| Written options                                   | 191,167 | -        | -        | 188,480 | -        | 675      |
| Purchased options                                 | 182,042 | 203      | -        | 160,739 | 187      | -        |
| Foreign exchange contracts:                       |         |          |          |         |          |          |
| Swaps                                             | 5,161   | -        | -        | 3,479   | -        | -        |
| Written options                                   | 3,231   | -        | 92       | 7,177   | -        | 176      |
| Purchased options                                 | 3,462   | 151      | -        | 6,974   | 137      | -        |
| Commitments to purchase and sell foreign exchange | 343,573 | 2,936    | 2,993    | 306,018 | 1,184    | 1,156    |
| Debt securities                                   | -       | 1,686    | 228      | -       | 1,665    | 213      |
| Credit derivatives                                | 1,417   | 40       | 3        | 2,260   | 61       | 3        |
| Equity securities and derivatives                 | 16,385  | 594      | 277      | 9,565   | 877      | 604      |
| Commodity and other derivatives                   | -       | -        | -        | -       | 14       | -        |
| Total trading account                             |         | \$ 8,091 | \$ 5,728 |         | \$ 6,420 | \$ 4,577 |

(a) Derivative financial instruments are reported net of cash collateral received and paid of \$258 million and \$924 million, respectively, at Sept. 30, 2008. Such amounts for Dec. 31, 2007 were not material.

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

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

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

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

| VAR <sup>(a)</sup>    | 3rd Quarter 2008 |         |         | Sept. 30, |
|-----------------------|------------------|---------|---------|-----------|
| (in millions)         | Average          | Minimum | Maximum | 2008      |
| Interest rate         | \$ 4.5           | \$ 2.5  | \$ 8.5  | \$ 6.6    |
| Foreign exchange      | 1.9              | 0.8     | 5.7     | 2.3       |
| Equity                | 2.5              | 1.4     | 3.9     | 2.7       |
| Credit <sup>(b)</sup> | 3.0              | 2.3     | 5.5     | 5.4       |
| Diversification       | (4.3)            | N/M     | N/M     | (9.4)     |
| Overall portfolio     | 7.6              | 4.6     | 10.4    | 7.6       |

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

| VAR                               | 3rd Quarter 2007 |         |         | Sept. 30, |
|-----------------------------------|------------------|---------|---------|-----------|
| (in millions)                     | Average          | Minimum | Maximum | 2007      |
| Interest rate                     | \$ 4.2           | \$ 2.5  | \$ 9.5  | \$ 4.9    |
| Foreign exchange                  | 1.7              | 0.7     | 3.8     | 1.4       |
| Equity                            | 2.4              | 0.8     | 5.5     | 1.6       |
| Credit derivatives <sup>(b)</sup> | 3.1              | 0.7     | 8.0     | 5.4       |
| Commodities                       | 2.3              | 0.9     | 3.3     | 3.1       |
| Diversification                   | (3.7)            | N/M     | N/M     | (5.0)     |
| Overall portfolio                 | 10.0             | 6.0     | 16.3    | 11.4      |

| VAR <sup>(a)</sup> | Year-to-date 2008 |         |         |
|--------------------|-------------------|---------|---------|
| (in millions)      | Average           | Minimum | Maximum |
| Interest rate      | \$ 5.6            | \$ 2.5  | \$ 10.1 |

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|                       |       |     |      |
|-----------------------|-------|-----|------|
| Foreign exchange      | 2.2   | 0.8 | 5.7  |
| Equity                | 2.6   | 1.0 | 7.7  |
| Credit <sup>(b)</sup> | 3.3   | 1.9 | 6.3  |
| Diversification       | (4.7) | N/M | N/M  |
| Overall portfolio     | 9.0   | 4.6 | 14.9 |

| <b>VAR</b><br>(in millions)       | Year-to-date 2007 <sup>(c)</sup> |         |         |
|-----------------------------------|----------------------------------|---------|---------|
|                                   | Average                          | Minimum | Maximum |
| Interest rate                     | \$ 3.9                           | \$ 1.9  | \$ 9.5  |
| Foreign exchange                  | 1.4                              | 0.6     | 3.8     |
| Equity                            | 2.5                              | 0.8     | 6.6     |
| Credit derivatives <sup>(b)</sup> | 1.7                              | 0.5     | 8.0     |
| Commodities                       | 2.1                              | -       | 3.7     |
| Diversification                   | (2.8)                            | N/M     | N/M     |
| Overall portfolio                 | 8.8                              | 3.0     | 16.3    |

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

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

(c) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

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

During the third quarter of 2008, interest rate risk generated 38% of average VAR, credit risk generated 25% of average VAR, equity risk generated 21% of average VAR and foreign exchange risk generated 16% of average VAR. During the third quarter of 2008, our daily trading loss did not exceed our calculated VAR amounts on any given day.

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

The volatility in the markets since July 2007 has caused the number of days when our trading revenue exceeded \$5 million to increase significantly.

**Distribution of revenues-number of days**

| <i>(in millions)</i> | Sept. 30,<br>2007 | Dec. 31,<br>2007 | Quarter ended<br>March 31,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2008 |
|----------------------|-------------------|------------------|------------------------------------|------------------|-------------------|
| Revenue range:       | Number of days    |                  |                                    |                  |                   |
| Less than \$(2.5)    | 2                 | -                | 6                                  | 1                | -                 |
| \$(2.5) - \$0        | 5                 | 3                | 3                                  | 1                | 1                 |
| \$0 - \$2.5          | 16                | 8                | 6                                  | 11               | 8                 |
| \$2.5 - \$5.0        | 20                | 25               | 14                                 | 26               | 22                |
| More than \$5.0      | 20                | 26               | 33                                 | 25               | 33                |

**Foreign exchange and other trading**

Under our mark to market methodology for derivative contracts, an initial risk-neutral valuation is performed on each position assuming time-discounting based on an AA credit curve.

In addition, we consider credit risk in arriving at the fair value of our derivatives. The table below summarizes the risk ratings for our foreign exchange and interest rate derivative counterparty credit exposure.

As required by SFAS 157, in the first quarter of 2008 we began to reflect external credit ratings as well as observable credit default swap spreads for both ourselves as well as our counterparties when measuring the fair value of our derivative positions.

Accordingly, the valuation of our derivative positions is sensitive to the current changes in our own credit spreads, as well as those of our counterparties. In addition, in cases where a counterparty is deemed impaired, further analyses are performed to value such positions.

At Sept. 30, 2008, our over-the-counter ( OTC ) derivative assets of \$5.7 billion included a credit valuation adjustment ( CVA ) deduction of \$86 million, including \$55 million related to the declining credit quality of CDO counterparties. Our OTC derivative liabilities of \$4.8 billion included an increase to revenue of \$32 million related to our own credit spread. These adjustments decreased foreign exchange and other trading activities revenue by \$50 million during the first nine months of 2008 and \$14 million in the third quarter of 2008.

**Foreign exchange and other trading-**

| counterparty risk ratings profile <sup>(a)</sup> | Sept. 30,<br>2007 | Dec. 31,<br>2007 | March 31,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2008 |
|--------------------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|
| Rating                                           |                   |                  |                   |                  |                   |
| AAA to AA-                                       | 70%               | 72%              | 61%               | 54%              | 58%               |
| A+ to A-                                         | 12                | 13               | 18                | 18               | 21                |
| BBB+ to BBB-                                     | 12                | 10               | 13                | 17               | 9                 |

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|                                                                                   |      |      |      |      |             |
|-----------------------------------------------------------------------------------|------|------|------|------|-------------|
| Noninvestment grade                                                               | 6    | 5    | 8    | 11   | <b>12</b>   |
| Total                                                                             | 100% | 100% | 100% | 100% | <b>100%</b> |
| <i>(a) Represents credit rating agency equivalent of internal credit ratings.</i> |      |      |      |      |             |

### Asset/liability management

Our diversified business activities include lending, investing in securities, accepting deposits, processing securities, raising money as needed to fund assets, and other transactions. The market risks from these activities are interest rate risk and foreign exchange risk. Our primary market risk is exposure to movements in U.S. dollar interest rates and certain foreign currency interest rates. We actively manage interest rate sensitivity and use

earnings simulation and discounted cash flow models to identify interest rate exposures.

An earnings simulation model is the primary tool used to assess changes in pre-tax net interest revenue. The model incorporates management's assumptions regarding interest rates, balance changes on core deposits, market spreads, changes in the prepayment behavior of loans and securities, and the impact of derivative financial instruments used for interest rate risk management purposes.

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

We evaluate the effect on earnings by running various interest rate ramp scenarios up and down from a baseline scenario. These scenarios are reviewed to examine the impact of large interest rate movements. Interest rate sensitivity is quantified by calculating the change in pre-tax net interest revenue between the scenarios over a 12-month measurement period.

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

**Estimated changes in net interest revenue**

| <i>(dollar amounts in millions)</i> | <b>Sept. 30, 2008</b> |       |
|-------------------------------------|-----------------------|-------|
| up 200 bps vs. baseline             | \$ 25                 | 0.7%  |
| up 100 bps vs. baseline             | 38                    | 1.1   |
| down 100 bps vs. baseline           | (105)                 | (3.0) |
| <i>bps - basis points.</i>          |                       |       |

The baseline scenario's Fed Funds rate in the Sept. 30, 2008 analysis was 1.50%. The 100 basis point ramp scenarios assume short-term rates change 25 basis points in each of the next four quarters and the 200 basis point ramp scenario assumes a 50 basis point per quarter change. The down 100 basis point Sept. 30, 2008 scenario assumes 10 year rates decline 66 basis points which steepens the yield curve. Both the up 100 basis point and the up 200 basis point Sept. 30, 2008 scenarios assume a flattening of the yield curve with 10-year rates rising 62 and 112 basis points, respectively. These scenarios do not reflect strategies that management could employ to limit the impact as interest rate expectations change. The previous table relies on certain critical assumptions regarding the balance

sheet and depositors' behavior related to interest rate fluctuations and the prepayment and extension risk in certain of our assets. To the extent that actual behavior is different from that assumed in the models, there could be a change in interest rate sensitivity.

**Off-balance-sheet financial instruments**

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

**Off-balance sheet credit risks**

| <i>(in millions)</i>                     | <b>Sept. 30, 2008</b> | <b>Dec. 31, 2007</b> |
|------------------------------------------|-----------------------|----------------------|
| Lending commitments <sup>(a)</sup>       | \$ 41,493             | \$ 49,055            |
| Standby letters of credit <sup>(b)</sup> | 13,472                | 13,813               |
| Commercial letters of credit             | 772                   | 1,167                |
| Securities lending indemnifications      | 451,024               | 618,487              |
| Support agreements                       | 265 <sup>(c)</sup>    | -                    |

<sup>(a)</sup> Net of participations totaling \$822 million at Sept. 30, 2008 and \$763 million at Dec. 31, 2007.

<sup>(b)</sup> Net of participations totaling \$2.6 billion at Sept. 30, 2008 and \$2.6 billion at Dec. 31, 2007.

<sup>(c)</sup> At Oct. 31, 2008, support agreement exposure was \$313 million.

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

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

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

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### Reconciliation of net income and

#### EPS GAAP to Non-GAAP

(in millions, except per share amounts)

|                                                                                                                                | 3Q08       |                        | 2Q08       |         | 3Q07       |                        |
|--------------------------------------------------------------------------------------------------------------------------------|------------|------------------------|------------|---------|------------|------------------------|
|                                                                                                                                | Net income | EPS                    | Net income | EPS     | Net income | EPS                    |
| Net income-GAAP                                                                                                                | \$ 303     | \$ 0.26                | \$ 309     | \$ 0.27 | \$ 640     | \$ 0.56                |
| Discontinued operations income (loss)                                                                                          | (2)        | -                      | 7          | 0.01    | (2)        | -                      |
| Continuing operations                                                                                                          | 305        | 0.26                   | 302        | 0.26    | 642        | 0.56                   |
| Non-GAAP adjustments:                                                                                                          |            |                        |            |         |            |                        |
| M&I expenses                                                                                                                   | 66         | 0.06                   | 89         | 0.08    | 127        | 0.11                   |
| SILO/LILO charge/tax settlements                                                                                               | 30         | 0.03                   | 380        | 0.33    | -          | -                      |
| Continuing operations excluding M&I expenses and SILO/LILO/tax settlements                                                     | 401        | 0.35                   | 771        | 0.67    | 769        | 0.67                   |
| Support agreement charges                                                                                                      | 433        | 0.37                   | (5)        | -       | -          | -                      |
| Continuing operations excluding M&I expenses, SILO/LILO/tax settlements and support agreement charges                          | 834        | 0.72                   | 766        | 0.67    | 769        | 0.67                   |
| Intangible amortization                                                                                                        | 74         | 0.06                   | 77         | 0.07    | 84         | 0.07                   |
| Continuing operations excluding M&I expenses, SILO/LILO/tax settlements, support agreement charges and intangible amortization | \$ 908     | \$ 0.79 <sup>(a)</sup> | \$ 843     | \$ 0.74 | \$ 853     | \$ 0.75 <sup>(a)</sup> |

(a) Does not foot due to rounding.

### Reconciliation of net income and

#### EPS GAAP to Non-GAAP

(in millions, except per share amounts)

|                                                                                                                                | Nine months ended |                     |                    |                     |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------|---------------------|--------------------|---------------------|
|                                                                                                                                | Sept 30, 2008     |                     | Sept. 30, 2007 (a) |                     |
|                                                                                                                                | Net income        | EPS                 | Net income         | EPS                 |
| Net income-GAAP                                                                                                                | \$ 1,358          | \$ 1.18             | \$ 1,519           | \$ 1.76             |
| Discontinued operations income (loss)                                                                                          | 2                 | -                   | (8)                | (0.01)              |
| Continuing operations                                                                                                          | 1,356             | 1.18                | 1,527              | 1.77                |
| Non-GAAP adjustments:                                                                                                          |                   |                     |                    |                     |
| M&I expenses                                                                                                                   | 230               | 0.20                | 169                | 0.20                |
| SILO/LILO charge/tax settlement                                                                                                | 410               | 0.36                | -                  | -                   |
| Continuing operations excluding M&I expenses and SILO/LILO/tax settlements                                                     | 1,996             | 1.73 <sup>(b)</sup> | 1,696              | 1.96 <sup>(b)</sup> |
| Support agreement charges                                                                                                      | 436               | 0.38                | -                  | -                   |
| Continuing operations excluding M&I expenses, SILO/LILO/tax settlements and support agreement charges                          | 2,432             | 2.11                | 1,696              | 1.96                |
| Intangible amortization                                                                                                        | 226               | 0.20                | 119                | 0.14                |
| Continuing operations excluding M&I expenses, SILO/LILO/tax settlements, support agreement charges and intangible amortization | \$ 2,658          | \$ 2.31             | \$ 1,815           | \$ 2.10             |

(a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

(b) Does not foot due to rounding.

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### Return on common equity

#### and tangible common equity

|                                                                                                                                                          |                  |           |           |                  |                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-----------|-----------|------------------|------------------|
| <i>(dollars in millions)</i>                                                                                                                             | <b>3Q08</b>      | 2Q08      | 3Q07      | <b>YTD08</b>     | YTD07 <i>(a)</i> |
| Average common shareholders' equity                                                                                                                      | <b>\$ 27,996</b> | \$ 28,507 | \$ 28,669 | <b>\$ 28,682</b> | \$ 17,234        |
| Less: Average goodwill                                                                                                                                   | <b>16,644</b>    | 16,758    | 16,123    | <b>16,661</b>    | 8,962            |
| Average intangible assets                                                                                                                                | <b>5,915</b>     | 6,042     | 6,285     | <b>6,061</b>     | 2,934            |
| Deferred tax liability - tax deductible goodwill                                                                                                         | <b>577</b>       | 548       | 468       | <b>577</b>       | 468              |
| Deferred tax liability - non-tax deductible intangible assets                                                                                            | <b>1,915</b>     | 1,959     | 1,947     | <b>1,915</b>     | 1,947            |
| Average tangible common shareholders' equity                                                                                                             | <b>\$ 7,929</b>  | \$ 8,214  | \$ 8,676  | <b>\$ 8,452</b>  | \$ 7,753         |
| Return on tangible common equity - GAAP <i>(annualized)</i>                                                                                              | <b>19.0%</b>     | 18.5%     | 33.2%     | <b>25.0%</b>     | 28.4%            |
| Return on tangible common equity excluding M&I expenses, the SILO/LILO/tax settlements and support agreement charges <i>(annualized)</i>                 | <b>45.5</b>      | 41.2      | 39.0      | <b>42.0</b>      | 31.3             |
| Return on common equity - GAAP <i>(annualized)</i>                                                                                                       | <b>4.3</b>       | 4.3       | 8.9       | <b>6.3</b>       | 11.8             |
| Return on common equity excluding M&I expenses, the SILO/LILO/tax settlements, support agreement charges and intangible amortization <i>(annualized)</i> | <b>12.9</b>      | 11.9      | 11.8      | <b>12.4</b>      | 14.1             |

*(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.*

### Reconciliation of total revenue - Fee and other revenue as a percentage of total revenue (FTE)

|                                                                                              |                 |          |          |                      |             |                  |                  |                        |
|----------------------------------------------------------------------------------------------|-----------------|----------|----------|----------------------|-------------|------------------|------------------|------------------------|
| <i>(dollars in millions)</i>                                                                 | <b>3Q08</b>     | 2Q08     | 3Q07     | <b>3Q08 vs. 2Q08</b> | <b>3Q07</b> | <b>YTD08</b>     | YTD07 <i>(a)</i> | <b>YTD08 vs. YTD07</b> |
| Fee and other revenue - GAAP                                                                 | <b>\$ 2,923</b> | \$ 2,982 | \$ 2,931 | <b>(2)%</b>          | <b>-%</b>   | <b>\$ 8,885</b>  | \$ 5,986         | <b>48%</b>             |
| Add: FTE increment - Fee and other revenue                                                   | <b>11</b>       | 11       | 9        |                      |             | <b>31</b>        | 9                |                        |
| Net interest revenue - GAAP                                                                  | <b>703</b>      | 411      | 669      |                      |             | <b>1,881</b>     | 1,548            |                        |
| Add: FTE increment - Net interest revenue                                                    | <b>5</b>        | 4        | 5        |                      |             | <b>15</b>        | 9                |                        |
| Total revenue (FTE)                                                                          | <b>3,642</b>    | 3,408    | 3,614    | <b>7%</b>            | <b>1%</b>   | <b>10,812</b>    | 7,552            | <b>43%</b>             |
| SILO/LILO charges                                                                            | <b>112</b>      | 377      | -        |                      |             | <b>489</b>       | -                | <b>-</b>               |
| Total revenue (FTE) - non-GAAP, excluding the SILO/LILO charges                              | <b>\$ 3,754</b> | \$ 3,785 | \$ 3,614 | <b>(1)%</b>          | <b>4%</b>   | <b>\$ 11,301</b> | \$ 7,552         | <b>50%</b>             |
| Fee and other revenue as a percentage of total revenue (FTE)                                 | <b>81%</b>      | 88%      | 81%      |                      |             | <b>82%</b>       | 79%              |                        |
| Fee and other revenue as a percentage of total revenue (FTE) excluding the SILO/LILO charges | <b>78%</b>      | 79%      | 81%      |                      |             | <b>79%</b>       | 79%              |                        |

*(a) Results for year-to-date 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.*

**Table of Contents****Reconciliation of income from continuing operations****before income taxes - Pre-tax operating margin (FTE)**

| <i>(dollars in millions)</i>                                                                                                                                             | <b>3Q08</b> | <b>2Q08</b> | <b>3Q07</b> | <b>YTD08</b> | <b>YTD07 (a)</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|--------------|------------------|
| Income from continuing operations before income taxes - GAAP                                                                                                             | \$ 264      | \$ 614      | \$ 894      | \$ 1,988     | \$ 2,197         |
| FTE increment                                                                                                                                                            | 16          | 15          | 14          | 46           | 18               |
| Income from continuing operations before income taxes (FTE)                                                                                                              | 280         | 629         | 908         | 2,034        | 2,215            |
| M&I expenses                                                                                                                                                             | 111         | 149         | 218         | 386          | 280              |
| Support agreement charges                                                                                                                                                | 726         | (9)         | -           | 731          | -                |
| SILO/LILO charges                                                                                                                                                        | 112         | 377         | -           | 489          | -                |
| Income from continuing operations before income taxes (FTE) excluding M&I expenses, the SILO/LILO/tax settlements and support agreement charges                          | 1,229       | 1,146       | 1,126       | 3,640        | 2,495            |
| Intangible amortization                                                                                                                                                  | 120         | 124         | 131         | 366          | 188              |
| Income from continuing operations before income taxes (FTE) excluding M&I expenses, the SILO/LILO/tax settlements, support agreement charges and intangible amortization | \$ 1,349    | \$ 1,270    | \$ 1,257    | \$ 4,006     | \$ 2,683         |
| Pre-tax operating margin (FTE) <sup>(b)</sup>                                                                                                                            | 8%          | 18%         | 25%         | 19%          | 29%              |
| Pre-tax operating margin (FTE) <sup>(b)</sup> excluding M&I expenses, support agreement charges, the SILO/LILO/tax settlements and intangible amortization               | 36%         | 34%         | 35%         | 35%          | 36%              |

(a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

(b) Income before taxes divided by total revenue.

**Recent accounting developments***SFAS No. 160 Noncontrolling Interests*

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

event with any retained interest remeasured at fair value. The gain or loss recognized in income includes both the realized gain or loss related to the portion of the ownership interest sold and the gain or loss on the remeasurement to fair value of the retained interest.

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

*SFAS No. 141 (revised) Business Combinations*

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ( SFAS 141 (R) ), Business Combinations. SFAS 141 (R) requires all acquisitions of businesses to be measured at the fair value of the business acquired rather than the cost allocation process specified in SFAS No. 141. This statement requires deal costs, such as legal, investment banking, and due diligence costs to be expensed as incurred, lowers the threshold for recording acquisition contingencies and requires contingencies to be measured at fair value. This statement applies to business combination transactions completed subsequent to Dec. 31, 2008.



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### *FSP No. SFAS 140-3 Repurchase Financing*

#### *Agreements*

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

### *SFAS No. 161 Disclosures about Derivative*

#### *Instruments and Hedging Activities*

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

### *FSP No. SFAS 133-1 and FIN 45-4 Disclosures*

#### *about Derivatives and Certain Guarantees*

In September 2008, the FASB issued FASB Staff Position No. SFAS 133-1 and FIN 45-4 ( FSP 133-1 ), Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP

amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FIN No. 45 to require an additional disclosure about the current status of the payment/performance risk of a guarantee. Further, this FSP clarifies the FASB's intent about the effective date of SFAS No. 161.

This FSP is effective for fiscal years ending after Nov. 15, 2008. We expect to adopt this FSP for periods ending on and after Dec. 31, 2008.

#### *IFRS*

International Financial Reporting Standards (IFRS) are a set of standards and interpretations adopted by the International Accounting Standards Board. The SEC is currently considering a potential IFRS adoption process in the U.S., which would, in the near term, provide domestic issuers with an alternative accounting method and ultimately could replace U.S. GAAP reporting requirements with IFRS reporting requirements. The intention of this adoption would be to provide the capital markets community with a single set of high-quality, globally accepted accounting standards. The adoption of IFRS for U.S. companies with global operations would allow for streamlined reporting, allow for easier access to foreign capital markets and investments, and facilitate cross-border acquisitions, ventures or spin-offs. In August 2008, the SEC announced its decision to propose a roadmap that will identify measures of progress that will be monitored between now and 2011 when the SEC plans to consider requiring U.S. public companies to adopt IFRS. The roadmap will be proposed in a release that addresses when and how the requirement to use IFRS might be phased in and includes a proposed rule that would, if adopted, permit certain large U.S. public companies in industries composed mainly of IFRS-reporting entities to use IFRS as soon as in their 2009 financial statements. It is anticipated there will be a 60-day comment period when the SEC releases its proposal.

#### *Adoption of new accounting standards*

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



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### **Government monetary policies and**

#### **competition**

##### *Government monetary policies*

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

Due to the recent events in the global markets, the Federal Reserve Board launched the Asset-Backed Commercial Paper Liquidity Facility Program and the Money Market Investor Funding Facility, which are disclosed in greater detail on pages 8 and 10.

##### *Competition*

The Company is subject to intense competition in all aspects and areas of our business. Our Asset Management and Wealth Management business segments experience competition from asset management firms; hedge funds; investment banking companies; bank and financial holding companies; banks, including trust banks; brokerage firms; and insurance companies. These firms/companies can be domiciled domestically or internationally. Our Asset Servicing, Clearing Services and Treasury Services business segments compete with domestic and foreign banks offering institutional trust and custody products and cash management products and a wide range of technologically capable service providers, such as data processing and shareholder service firms and other firms that rely on automated data transfer and capture services for institutional and retail customers.

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

As a result of current conditions in the global financial markets and the economy generally, competition could intensify as a result of the increasing consolidation of financial service companies in connection with current market conditions.

As part of our business strategy, we seek to distinguish ourselves from competitors by the level of service we deliver to clients. We also believe that technological innovation is an important competitive factor, and, for this reason, have made and continue to make substantial investments in this area. The ability to recover quickly from unexpected events is a competitive factor, and we have devoted significant resources to this. See Item 1A Risk Factors , as well as Risk Factors in our 2007 Annual Report on Form 10-K.

### **Website information**

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

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

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

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

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

## Edgar Filing: Bank of New York Mellon CORP - Form 10-Q

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

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**Table of Contents****Item 1. Financial Statements.****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Income Statement (unaudited)**

|                                                                          | Sept. 30,<br>2008 | Quarter ended<br>June 30,<br>2008 | Sept. 30,<br>2007 | Nine months ended<br>Sept. 30,<br>2008 | Sept. 30,<br>2007 <sup>(a)</sup> |
|--------------------------------------------------------------------------|-------------------|-----------------------------------|-------------------|----------------------------------------|----------------------------------|
| <i>(in millions, except per share amounts or unless otherwise noted)</i> |                   |                                   |                   |                                        |                                  |
| <b>Fee and other revenue</b>                                             |                   |                                   |                   |                                        |                                  |
| Securities servicing fees:                                               |                   |                                   |                   |                                        |                                  |
| Asset servicing                                                          | \$ 803            | \$ 864                            | \$ 720            | \$ 2,566                               | \$ 1,540                         |
| Issuer services                                                          | 477               | 444                               | 436               | 1,297                                  | 1,122                            |
| Clearing and execution services                                          | 262               | 270                               | 304               | 799                                    | 877                              |
| Total securities servicing fees                                          | 1,542             | 1,578                             | 1,460             | 4,662                                  | 3,539                            |
| Asset and wealth management fees                                         | 792               | 844                               | 854               | 2,478                                  | 1,173                            |
| Performance fees                                                         | 3                 | 16                                | (3)               | 39                                     | 32                               |
| Foreign exchange and other trading activities                            | 385               | 308                               | 238               | 952                                    | 482                              |
| Treasury services                                                        | 130               | 130                               | 122               | 384                                    | 227                              |
| Distribution and servicing                                               | 107               | 110                               | 95                | 315                                    | 99                               |
| Financing-related fees                                                   | 45                | 50                                | 51                | 143                                    | 164                              |
| Investment income                                                        | 17                | 45                                | 22                | 85                                     | 97                               |
| Other                                                                    | 64                | 53                                | 101               | 214                                    | 182                              |
| Total fee revenue                                                        | 3,085             | 3,134                             | 2,940             | 9,272                                  | 5,995                            |
| Securities gains (losses)                                                | (162)             | (152)                             | (9)               | (387)                                  | (9)                              |
| Total fee and other revenue                                              | 2,923             | 2,982                             | 2,931             | 8,885                                  | 5,986                            |
| <b>Net interest revenue</b>                                              |                   |                                   |                   |                                        |                                  |
| Interest revenue                                                         | 1,339             | 1,092                             | 1,778             | 4,087                                  | 3,961                            |
| Interest expense                                                         | 636               | 681                               | 1,109             | 2,206                                  | 2,413                            |
| Net interest revenue                                                     | 703               | 411                               | 669               | 1,881                                  | 1,548                            |
| Provision for credit losses                                              | 30                | 25                                | -                 | 71                                     | (30)                             |
| Net interest revenue after provision for credit losses                   | 673               | 386                               | 669               | 1,810                                  | 1,578                            |
| <b>Noninterest expense</b>                                               |                   |                                   |                   |                                        |                                  |
| Staff                                                                    | 1,218             | 1,391                             | 1,280             | 3,961                                  | 2,752                            |
| Professional, legal and other purchased services                         | 287               | 280                               | 241               | 819                                    | 503                              |
| Net occupancy                                                            | 164               | 139                               | 144               | 432                                    | 304                              |
| Distribution and servicing                                               | 133               | 131                               | 127               | 394                                    | 135                              |
| Furniture and equipment                                                  | 80                | 79                                | 80                | 238                                    | 184                              |
| Sub-custodian and clearing                                               | 80                | 83                                | 110               | 233                                    | 267                              |
| Software                                                                 | 78                | 88                                | 91                | 245                                    | 202                              |
| Business development                                                     | 62                | 75                                | 56                | 203                                    | 123                              |
| Other                                                                    | 999               | 215                               | 228               | 1,430                                  | 429                              |
| Subtotal                                                                 | 3,101             | 2,481                             | 2,357             | 7,955                                  | 4,899                            |
| Amortization of intangible assets                                        | 120               | 124                               | 131               | 366                                    | 188                              |
| Merger and integration expenses:                                         |                   |                                   |                   |                                        |                                  |
| The Bank of New York Mellon Corporation                                  | 107               | 146                               | 205               | 374                                    | 244                              |
| Acquired Corporate Trust Business                                        | 4                 | 3                                 | 13                | 12                                     | 36                               |
| Total noninterest expense                                                | 3,332             | 2,754                             | 2,706             | 8,707                                  | 5,367                            |

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### Income

|                                                        |        |        |        |          |          |
|--------------------------------------------------------|--------|--------|--------|----------|----------|
| Income from continuing operations before income taxes  | 264    | 614    | 894    | 1,988    | 2,197    |
| Provision for income taxes                             | (41)   | 312    | 252    | 632      | 670      |
| Income from continuing operations                      | 305    | 302    | 642    | 1,356    | 1,527    |
| Discontinued operations:                               |        |        |        |          |          |
| Income (loss) from discontinued operations             | (2)    | 16     | (4)    | 9        | (13)     |
| Provision (benefit) for income taxes                   | -      | 9      | (2)    | 7        | (5)      |
| Income (loss) from discontinued operations, net of tax | (2)    | 7      | (2)    | 2        | (8)      |
| Net income                                             | \$ 303 | \$ 309 | \$ 640 | \$ 1,358 | \$ 1,519 |

(a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

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**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Income Statement (unaudited) - continued**

*(in millions, except per share amounts, or unless otherwise noted)*

|                                                         | Sept. 30,<br>2008 | Quarter ended<br>June 30,<br>2008 | Sept. 30,<br>2007 | Nine months ended<br>Sept. 30,<br>2008 | Sept. 30,<br>2007 <sup>(a)</sup> |
|---------------------------------------------------------|-------------------|-----------------------------------|-------------------|----------------------------------------|----------------------------------|
| <b>Earnings per share</b>                               |                   |                                   |                   |                                        |                                  |
| <i>Basic:</i>                                           |                   |                                   |                   |                                        |                                  |
| Income from continuing operations                       | \$ 0.27           | \$ 0.27                           | \$ 0.57           | \$ 1.19                                | \$ 1.79                          |
| Income (loss) from discontinued operations, net of tax  | -                 | 0.01                              | -                 | -                                      | (0.01)                           |
| Net income                                              | \$ 0.27           | \$ 0.27 <sup>(b)</sup>            | \$ 0.57           | \$ 1.19                                | \$ 1.78                          |
| <i>Diluted:</i>                                         |                   |                                   |                   |                                        |                                  |
| Income from continuing operations                       | \$ 0.26           | \$ 0.26                           | \$ 0.56           | \$ 1.18                                | \$ 1.77                          |
| Income (loss) from discontinued operations, net of tax  | -                 | 0.01                              | -                 | -                                      | (0.01)                           |
| Net income                                              | \$ 0.26           | \$ 0.27                           | \$ 0.56           | \$ 1.18                                | \$ 1.76                          |
| <b>Average shares outstanding <i>(in thousands)</i></b> |                   |                                   |                   |                                        |                                  |
| Basic                                                   | 1,143,445         | 1,135,153                         | 1,128,734         | 1,141,424                              | 852,223                          |
| Common stock equivalents                                | 8,024             | 11,733                            | 12,411            | 11,020                                 | 10,654                           |
| Diluted                                                 | 1,151,469         | 1,146,886                         | 1,141,145         | 1,152,444                              | 862,877                          |

<sup>(a)</sup> Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

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

See accompanying Notes to Consolidated Financial Statements.

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

#### Consolidated Balance Sheet (unaudited)

|                                                                                                                                                 | Sept. 30,<br>2008 | Dec. 31,<br>2007 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|
| <i>(dollar amounts in millions, except per share amounts)</i>                                                                                   |                   |                  |
| <b>Assets</b>                                                                                                                                   |                   |                  |
| Cash and due:                                                                                                                                   |                   |                  |
| Banks                                                                                                                                           | \$ 7,430          | \$ 6,555         |
| Federal Reserve Bank                                                                                                                            | 37,909            | 80               |
| Other short-term investments U.S. government-backed commercial paper, at fair value                                                             | 10,865            | -                |
| Interest-bearing deposits with banks                                                                                                            | 52,222            | 34,312           |
| Federal funds sold and securities purchased under resale agreements                                                                             | 7,759             | 9,108            |
| Securities:                                                                                                                                     |                   |                  |
| Held-to-maturity (fair value of \$7,580 and \$2,171)                                                                                            | 7,705             | 2,180            |
| Available-for-sale                                                                                                                              | 33,910            | 46,518           |
| Total securities                                                                                                                                | 41,615            | 48,698           |
| Trading assets                                                                                                                                  | 8,091             | 6,420            |
| Loans                                                                                                                                           | 59,042            | 50,931           |
| Allowance for loan losses                                                                                                                       | (365)             | (327)            |
| Net loans                                                                                                                                       | 58,677            | 50,604           |
| Premises and equipment                                                                                                                          | 1,678             | 1,731            |
| Accrued interest receivable                                                                                                                     | 738               | 739              |
| Goodwill                                                                                                                                        | 16,335            | 16,331           |
| Intangible assets                                                                                                                               | 6,043             | 6,402            |
| Other assets (includes \$836 at fair value at Sept. 30, 2008)                                                                                   | 18,148            | 16,676           |
| Total assets                                                                                                                                    | \$ 267,510        | \$ 197,656       |
| <b>Liabilities</b>                                                                                                                              |                   |                  |
| Deposits:                                                                                                                                       |                   |                  |
| Noninterest-bearing (principally domestic offices)                                                                                              | \$ 81,727         | \$ 32,372        |
| Interest-bearing deposits in domestic offices                                                                                                   | 25,465            | 21,082           |
| Interest-bearing deposits in foreign offices                                                                                                    | 66,976            | 64,671           |
| Total deposits                                                                                                                                  | 174,168           | 118,125          |
| Borrowings from Federal Reserve related to asset-backed commercial paper, at fair value                                                         | 10,865            | -                |
| Federal funds purchased and securities sold under repurchase agreements                                                                         | 6,467             | 2,193            |
| Trading liabilities                                                                                                                             | 5,728             | 4,577            |
| Payables to customers and broker-dealers                                                                                                        | 10,971            | 7,578            |
| Commercial paper                                                                                                                                | 43                | 4,079            |
| Other borrowed funds                                                                                                                            | 2,916             | 1,840            |
| Accrued taxes and other expenses                                                                                                                | 5,134             | 8,101            |
| Other liabilities (including allowance for lending related commitments of \$129 and \$167, also includes \$297 at fair value at Sept. 30, 2008) | 8,164             | 4,887            |
| Long-term debt                                                                                                                                  | 15,541            | 16,873           |
| Total liabilities                                                                                                                               | 239,997           | 168,253          |
| <b>Shareholders' equity</b>                                                                                                                     |                   |                  |
| Common stock-par value \$0.01 per share; authorized 3,500,000,000 shares; issued 1,148,509,331 and 1,146,896,177 shares                         | 11                | 11               |
| Additional paid-in capital                                                                                                                      | 20,212            | 19,990           |
| Retained earnings                                                                                                                               | 10,438            | 10,015           |
| Accumulated other comprehensive loss, net of tax                                                                                                | (3,115)           | (574)            |
| Less: Treasury stock of 942,777 and 912,896 shares, at cost                                                                                     | (33)              | (39)             |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total shareholders' equity                 | 27,513     | 29,403     |
| Total liabilities and shareholders' equity | \$ 267,510 | \$ 197,656 |

*See accompanying Notes to Consolidated Financial Statements.*

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**Table of Contents****The Bank of New York Mellon Corporation (and its subsidiaries)****Consolidated Statement of Cash Flows (unaudited)**

| (in millions)                                                                                | Nine months ended Sept. 30, |                     |
|----------------------------------------------------------------------------------------------|-----------------------------|---------------------|
|                                                                                              | 2008                        | 2007 <sup>(a)</sup> |
| <b>Operating activities</b>                                                                  |                             |                     |
| Net income                                                                                   | \$ 1,358                    | \$ 1,519            |
| Income (loss) from discontinued operations                                                   | 2                           | (8)                 |
| Income from continuing operations                                                            | 1,356                       | 1,527               |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: |                             |                     |
| Provision for credit losses                                                                  | 71                          | (30)                |
| Depreciation and amortization                                                                | 697                         | 450                 |
| Deferred tax (benefit) expense                                                               | (427)                       | 205                 |
| Securities losses (gains) and venture capital income                                         | 373                         | (39)                |
| Change in trading activities                                                                 | (700)                       | 1,823               |
| Change in accruals and other, net                                                            | 163                         | 311                 |
| Net cash provided by operating activities                                                    | 1,533                       | 4,247               |
| <b>Investing activities</b>                                                                  |                             |                     |
| Change in interest-bearing deposits with banks                                               | (30,233)                    | (10,005)            |
| Change in margin loans                                                                       | (254)                       | 241                 |
| Paydowns of securities held-to-maturity                                                      | 164                         | 187                 |
| Maturities of securities held-to-maturity                                                    | 155                         | 205                 |
| Purchases of securities available-for-sale                                                   | (7,711)                     | (20,038)            |
| Sales of securities available-for-sale                                                       | 299                         | 1,176               |
| Paydowns of securities available-for-sale                                                    | 4,061                       | 3,605               |
| Maturities of securities available-for-sale                                                  | 5,134                       | 7,189               |
| Net principal disbursed on loans to customers                                                | (9,013)                     | (6,171)             |
| Sales of loans and other real estate                                                         | 85                          | 1                   |
| Change in federal funds sold and securities purchased under resale agreements                | 335                         | 2,302               |
| Change in seed capital investments                                                           | (157)                       | (9)                 |
| Purchases of premises and equipment/capitalized software                                     | (210)                       | (233)               |
| Acquisitions, net cash                                                                       | (478)                       | 2,005               |
| Dispositions, net cash                                                                       | 310                         | -                   |
| Proceeds from the sale of premises and equipment                                             | 35                          | 1                   |
| Other, net                                                                                   | (130)                       | 261                 |
| Net cash (used for) investing activities                                                     | (37,608)                    | (19,283)            |
| <b>Financing activities</b>                                                                  |                             |                     |
| Change in deposits                                                                           | 60,518                      | 15,681              |
| Change in federal funds purchased and securities sold under repurchase agreements            | 4,274                       | 809                 |
| Change in payables to customers and broker-dealers                                           | 3,393                       | 661                 |
| Change in other borrowed funds                                                               | 12,920                      | 438                 |
| Change in commercial paper                                                                   | (4,036)                     | (177)               |
| Net proceeds from the issuance of long-term debt                                             | 2,647                       | 2,248               |
| Repayments of long-term debt                                                                 | (3,826)                     | (1,119)             |
| Proceeds from the exercise of stock options                                                  | 180                         | 242                 |
| Issuance of common stock                                                                     | 31                          | 179                 |
| Tax benefit realized on share-based payment awards                                           | 12                          | 23                  |
| Treasury stock acquired                                                                      | (307)                       | (88)                |
| Cash dividends paid                                                                          | (830)                       | (610)               |
| Net cash provided by financing activities                                                    | 74,976                      | 18,287              |
| Effect of exchange rate changes on cash                                                      | (197)                       | (81)                |

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|                                                |               |          |
|------------------------------------------------|---------------|----------|
| <b>Change in cash and due from banks</b>       |               |          |
| Change in cash and due from banks              | <b>38,704</b> | 3,170    |
| Cash and due from banks at beginning of period | <b>6,635</b>  | 2,840    |
|                                                |               |          |
| Cash and due from banks at end of period       | \$ 45,339     | \$ 6,010 |

### Supplemental disclosures

|                       |          |          |
|-----------------------|----------|----------|
| Interest paid         | \$ 2,204 | \$ 2,441 |
| Income taxes paid     | 2,174    | 1,014    |
| Income taxes refunded | 54       | 117      |

(a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

See accompanying Notes to Consolidated Financial Statements.

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

#### Consolidated Statement of Changes in Shareholders' Equity (unaudited)

Nine months ended Sept. 30, 2008

|                                                                                                        | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss),<br>net of tax | Treasury<br>stock | Total<br>shareholders<br>equity |
|--------------------------------------------------------------------------------------------------------|-----------------|----------------------------------|----------------------|--------------------------------------------------------------------------|-------------------|---------------------------------|
| <i>(in millions, except per share amounts)</i>                                                         |                 |                                  |                      |                                                                          |                   |                                 |
| Balance at Jan. 1, 2008                                                                                | \$ 11           | \$ 19,990                        | \$ 10,015            | \$ (574)                                                                 | \$ (39)           | \$ 29,403                       |
| Adjustments for the cumulative effect of applying EITF 06-04, 06-10 and SFAS 159, net of taxes of \$24 | -               | -                                | (57)                 | -                                                                        | -                 | (57)                            |
| Adjusted balance at Jan. 1, 2008                                                                       | 11              | 19,990                           | 9,958                | (574)                                                                    | (39)              | 29,346                          |
| Comprehensive income:                                                                                  |                 |                                  |                      |                                                                          |                   |                                 |
| Net income                                                                                             | -               | -                                | 1,358                | -                                                                        | -                 | 1,358                           |
| Other comprehensive income:                                                                            |                 |                                  |                      |                                                                          |                   |                                 |
| Employee benefit plans:                                                                                |                 |                                  |                      |                                                                          |                   |                                 |
| Pensions                                                                                               | -               | -                                | -                    | 28                                                                       | -                 | 28                              |
| Other post-retirement benefits                                                                         | -               | -                                | -                    | 10                                                                       | -                 | 10                              |
| Net unrealized derivative gain on cash flow hedges                                                     | -               | -                                | -                    | 29                                                                       | -                 | 29                              |
| Foreign currency translation adjustment                                                                | -               | -                                | -                    | (160)                                                                    | -                 | (160)                           |
| Change in fair value of securities available-for-sale                                                  | -               | -                                | -                    | (2,444)                                                                  | -                 | (2,444)                         |
| Reclassification adjustment                                                                            | -               | -                                | -                    | (4)                                                                      | -                 | (4)                             |
| Total comprehensive income                                                                             | -               | -                                | 1,358                | (2,541)                                                                  | -                 | (1,183)                         |
| Dividends on common stock at \$0.72 per share                                                          | -               | -                                | (830)                | -                                                                        | -                 | (830)                           |
| Repurchase of common stock                                                                             | -               | -                                | -                    | -                                                                        | (307)             | (307)                           |
| Common stock issued under employee benefit plans                                                       | -               | 12                               | -                    | -                                                                        | 40                | 52                              |
| Common stock issued under direct stock purchase and dividend reimbursement plan                        | -               | -                                | -                    | -                                                                        | 23                | 23                              |
| Stock awards and options exercised                                                                     | -               | 156                              | -                    | -                                                                        | 244               | 400                             |
| Other                                                                                                  | -               | 54                               | (48)                 | -                                                                        | 6                 | 12                              |
| <b>Balance at Sept. 30, 2008</b>                                                                       | <b>\$ 11</b>    | <b>\$ 20,212</b>                 | <b>\$ 10,438</b>     | <b>\$ (3,115)</b>                                                        | <b>\$ (33)</b>    | <b>\$ 27,513</b>                |

Note: Comprehensive income for the nine months ended Sept. 30, 2008 and 2007 was \$ (1,183) million and \$1,348 million. Comprehensive income for the nine months ended Sept. 30, 2007 includes six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

See accompanying Notes to Consolidated Financial Statements

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

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

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

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

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

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

Additional consideration of \$5 million for prior acquisitions was paid in stock in the third quarter of 2008. Contingent payments totaled \$130 million in the first nine months of 2008, including \$5 million in stock.

At Sept. 30, 2008, we are potentially obligated to pay additional consideration which, using reasonable assumptions for the performance of the acquired companies and joint ventures, could range from approximately \$180 million to \$360 million over the next 9 years. None of the potential contingent additional consideration was recorded as goodwill at Sept. 30, 2008.

#### *Acquisitions in 2008*

In January 2008, we acquired ARX Capital Management ( ARX ). Goodwill related to this acquisition is tax-deductible and was \$147 million. The pre-tax estimate of intangible assets (customer contracts) related to this transaction, with an estimated life of 7 years, totaled \$19 million. ARX is a leading independent asset management business, headquartered in Rio de Janeiro, Brazil. ARX specializes in Brazilian multi-strategy, long/short and long only investment strategies and has more than \$2.8 billion in assets under management. This transaction enables us to offer clients access to expanding investment opportunities and expertise in the Brazilian marketplace. The impact of this acquisition on earnings per share is not expected to be material.

#### *Dispositions in 2008*

On July 18, 2008, we entered into a definitive agreement to sell the assets of Gannett Welsh & Kotler, an investment management subsidiary with approximately \$8 billion in assets under management. We completed this transaction on Oct. 1, 2008.

In June 2008, we sold M1BB, based in Los Angeles, California. The sale reduced loan and deposit levels by \$1.1 billion and \$2.8 billion, respectively. There was no gain or loss recorded on this transaction. This transaction reflects our focus on reducing non-core activities. Net income for M1BB was \$29 million for full year 2007 and was primarily comprised of net interest revenue.

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

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

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revenue and \$10-15 million of pre-tax income on a quarterly basis.

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

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

*Other 2007 acquisitions and dispositions*

In December 2007, we completed the acquisition of the remaining 50% interest in ABN AMRO Mellon Global Securities Services B.V. (ABN AMRO Mellon). ABN AMRO Mellon, a 50-50 joint venture company established by Mellon Bank, N.A. and ABN AMRO in 2003 to provide global custody and related services to institutions outside North America, is now known as BNY Mellon Asset Servicing, B.V. and is included in the Asset Servicing segment. The acquisition of the remaining 50% interest in BNY Mellon Asset Servicing B.V., added \$1.0 billion of loans (overdrafts that have been repaid), \$3.5 billion of money market assets and \$4.5 billion of deposits in 2007. The impact of the acquisition on earnings per share is not expected to be material.

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

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

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

*Pro forma condensed combined financial**information*

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

| (dollar amounts in millions,<br>except per share amounts) | Nine months ended<br>Sept. 30, 2007 |           |
|-----------------------------------------------------------|-------------------------------------|-----------|
|                                                           | Reported                            | Pro Forma |
| Revenue                                                   | \$ 7,534                            | \$ 10,420 |
| Income from continuing operations                         | 1,527                               | 2,232     |
| Net income                                                | 1,519                               | 2,230     |

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Diluted earnings per share:

|                                   |         |         |
|-----------------------------------|---------|---------|
| Income from continuing operations | \$ 1.77 | \$ 1.96 |
| Net income                        | 1.76    | 1.96    |

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

### **Note 3 Accounting changes and new**

#### **accounting pronouncements**

*SFAS No. 157 Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157 ( SFAS 157 ), Fair Value Measurements.

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

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

We adopted SFAS 157 as of Jan. 1, 2008. As a result of maximizing observable inputs as required by SFAS 157, we began to reflect external credit ratings as well as observable credit default swap spreads when measuring the fair value of our derivative positions. The cumulative effect of making this derivative valuation adjustment decreased foreign exchange and other trading revenue by \$50 million during the first nine months of 2008 and \$14 million in the third quarter of 2008. Less than 2% of our assets and liabilities measured at fair value are in the lowest tier of the fair value hierarchy. See Note 12, Fair Value Measurement in Notes to Consolidated Financial Statements.

#### *SFAS No. 159 Fair Value Option*

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

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

During the third quarter of 2008, \$280 million of the loans were paid in full. At Sept. 30, 2008, \$110 million of the unfunded loan commitments were accounted for under the fair value option.

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

In September 2006, the FASB ratified Emerging Issues Task Force (EITF) 06-4, Postretirement Benefits Associated with Split-Dollar Life Insurance Arrangements, and in March 2007, FASB ratified EITF 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements. EITF 06-4 and EITF 06-10 address endorsement and collateral assignment split-dollar life insurance arrangements, respectively, that provide a benefit to an employee that extends to postretirement periods.



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

An endorsement split-dollar policy is owned and controlled by the employer. However, a collateral assignment policy is owned and controlled by the employee. Both policy arrangements provide that the employer and an employee split the insurance policy's cash surrender value and/or death benefits. The EITFs require that the deferred compensation or postretirement benefit aspects of the split-dollar life insurance arrangements be recognized as a liability by the employer because the obligation is not effectively settled by the purchase of a life insurance policy. The liability for future benefits will be recognized based on the substantive agreement with the employee, which may be either to provide a future death benefit or to pay for the future cost of the life insurance.

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

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

*Interpretation No. 39*

In April 2007, the FASB issued FASB Staff Position No. FIN 39-1 ( FSP 39-1 ) Amendment of FASB Interpretation No. 39. FSP 39-1 permits offsetting of fair value amounts recognized for the right to reclaim cash collateral (a receivable) or obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangements, and amends FIN No. 39 to replace the terms conditional contracts and exchange contracts with the term derivative instruments, as defined in SFAS 133. We adopted this FSP on Jan. 1, 2008. Beginning Jan. 1, 2008,

we revised our accounting policy to net cash collateral received and cash collateral paid for derivative instruments executed with the same counterparty under the same master netting arrangements. The impact of adopting FSP 39-1 resulted in a reduction of trading account assets and trading account liabilities of \$258 million and \$924 million, respectively, at Sept. 30, 2008.

*Other*

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

### **Note 4 Discontinued operations**

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

In accordance with GAAP, the results for the Retail Business are reported separately as discontinued operations for all periods presented. In addition, certain residual activity from businesses that Mellon Financial had reported as discontinued operations prior to the merger are also included as discontinued operations after July 1, 2007.

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

Summarized financial information for discontinued operations is as follows:

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## Discontinued operations

(in millions)

|                                                          | Sept. 30,<br>2008 | Quarter ended<br>June 30,<br>2008 | Sept. 30,<br>2007 | Nine months ended<br>Sept. 30,<br>2008 | Sept. 30,<br>2007 <sup>(a)</sup> |
|----------------------------------------------------------|-------------------|-----------------------------------|-------------------|----------------------------------------|----------------------------------|
| Fee and other revenue                                    | \$ (2)            | \$ 18                             | \$ 1              | \$ 14                                  | \$ 16                            |
| Net interest revenue                                     | -                 | -                                 | -                 | -                                      | -                                |
| Total revenue                                            | \$ (2)            | \$ 18                             | \$ 1              | \$ 14                                  | \$ 16                            |
| Income (loss) from discontinued operations               | \$ (2)            | \$ 16                             | \$ (4)            | \$ 9                                   | \$ (13)                          |
| Income taxes (benefits)                                  | -                 | 9                                 | (2)               | 7                                      | (5)                              |
| Income (loss) from discontinued operations, net of taxes | \$ (2)            | \$ 7                              | \$ (2)            | \$ 2                                   | \$ (8)                           |

(a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 5 Goodwill and intangible assets***Goodwill*

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

**Goodwill by segment**

| <i>(in millions)</i>             | Asset<br>Management | Wealth<br>Management | Asset<br>Servicing | Issuer<br>Services | Clearing<br>Services | Treasury<br>Services | Other         | Total            |
|----------------------------------|---------------------|----------------------|--------------------|--------------------|----------------------|----------------------|---------------|------------------|
| Balance at Dec. 31, 2007         | \$ 7,054            | \$ 2,362             | \$ 3,291           | \$ 2,413           | \$ 1,119             | \$ 92                | \$ -          | \$ 16,331        |
| Acquisitions/dispositions        | 171                 | -                    | (11)               | 46                 | (50)                 | -                    | (178)         | (22)             |
| Transfer between segments        | -                   | (255)                | -                  | -                  | -                    | -                    | 255           | -                |
| Foreign exchange translation     | (195)               | -                    | (89)               | (2)                | (19)                 | -                    | -             | (305)            |
| Other <sup>(a)</sup>             | 476                 | (412)                | 235                | 20                 | (80)                 | 31                   | 61            | 331              |
| <b>Balance at Sept. 30, 2008</b> | <b>\$ 7,506</b>     | <b>\$ 1,695</b>      | <b>\$ 3,426</b>    | <b>\$ 2,477</b>    | <b>\$ 970</b>        | <b>\$ 123</b>        | <b>\$ 138</b> | <b>\$ 16,335</b> |

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

*Intangible assets*

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

**Intangible assets**

|                                                    | Sept. 30, 2008              |                             | Dec. 31, 2007             |                           |
|----------------------------------------------------|-----------------------------|-----------------------------|---------------------------|---------------------------|
|                                                    | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net<br>carrying<br>amount | Net<br>carrying<br>amount |
| <i>(in millions)</i>                               |                             |                             |                           |                           |
| Subject to amortization:                           |                             |                             |                           |                           |
| Customer relationships-Asset and Wealth Management | \$ 1,949                    | \$ (389)                    | \$ 1,560                  | \$ 1,758                  |
| Customer contracts-Institutional services          | 2,052                       | (377)                       | 1,675                     | 1,776                     |
| Deposit premiums                                   | 68                          | (36)                        | 32                        | 82                        |
| Other                                              | 94                          | (20)                        | 74                        | 62                        |
| Total subject to amortization                      | \$ 4,163                    | \$ (822)                    | \$ 3,341                  | \$ 3,678                  |
| Not subject to amortization: <sup>(a)</sup>        |                             |                             |                           |                           |
| Trade name                                         | \$ 1,365                    | N/A                         | \$ 1,365                  | \$ 1,369                  |
| Mutual fund advisory contracts                     | 1,337                       | N/A                         | 1,337                     | 1,355                     |

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|                                   |          |          |          |          |
|-----------------------------------|----------|----------|----------|----------|
| Total not subject to amortization | \$ 2,702 | N/A      | \$ 2,702 | \$ 2,724 |
| Total intangible assets           | \$ 6,865 | \$ (822) | \$ 6,043 | \$ 6,402 |

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

N/A - Not applicable.

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Intangible assets-net carrying amount by segment**

| <i>(in millions)</i>                         | Asset<br>Management | Wealth<br>Management | Asset<br>Servicing | Issuer<br>Services | Clearing<br>Services | Treasury<br>Services | Other         | Total           |
|----------------------------------------------|---------------------|----------------------|--------------------|--------------------|----------------------|----------------------|---------------|-----------------|
| Balance at Dec. 31, 2007                     | \$ 3,364            | \$ 643               | \$ 505             | \$ 919             | \$ 710               | \$ 261               | \$ -          | \$ 6,402        |
| Acquisitions/dispositions                    | 27                  | -                    | (2)                | 17                 | 10                   | -                    | (22)          | 30              |
| Transfer between segments                    | -                   | (37)                 | -                  | -                  | -                    | -                    | 37            | -               |
| Amortization                                 | (194)               | (47)                 | (18)               | (61)               | (19)                 | (20)                 | (7)           | (366)           |
| Foreign exchange translation                 | (62)                | -                    | (8)                | (3)                | (2)                  | -                    | -             | (75)            |
| Other <sup>(a)</sup>                         | (406)               | (206)                | (176)              | (17)               | 11                   | (6)                  | 852           | 52              |
| <b>Net carrying amount at Sept. 30, 2008</b> | <b>\$ 2,729</b>     | <b>\$ 353</b>        | <b>\$ 301</b>      | <b>\$ 855</b>      | <b>\$ 710</b>        | <b>\$ 235</b>        | <b>\$ 860</b> | <b>\$ 6,043</b> |

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

Intangible amortization expense was \$120 million and \$131 million for the quarters ended Sept. 30, 2008 and 2007, respectively, and \$366 million and \$188 million for the first nine months of 2008 and 2007, respectively. Estimated annual amortization expense for current intangibles for the next five years is as follows:

|                             | Estimated amortization<br>expense <i>(in millions)</i> |
|-----------------------------|--------------------------------------------------------|
| For the year ended Dec. 31, |                                                        |
| 2008                        | \$ 486                                                 |
| 2009                        | 431                                                    |
| 2010                        | 388                                                    |
| 2011                        | 355                                                    |
| 2012                        | 327                                                    |

**Note 6 Allowance for credit losses**

The allowance for credit losses is maintained at a level that, in management's judgment, is adequate to absorb probable losses associated with specifically identified loans, as well as estimated probable credit losses inherent in the remainder of the credit portfolio at the balance sheet date.

We conduct a quarterly portfolio review to determine the adequacy of our allowance for credit losses. Following this review, senior management analyzes the results and determines the allowance for credit losses. The Risk Committee of our Board of Directors reviews the allowance at the end of each quarter.

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

**For the quarter ended**

**Sept. 30, 2008**

| <i>(in millions)</i>     | Allowance<br>for loan<br>losses | Allowance<br>for lending-<br>related<br>commitments | Allowance<br>for credit<br>losses |
|--------------------------|---------------------------------|-----------------------------------------------------|-----------------------------------|
| Balance at June 30, 2008 | \$ 353                          | \$ 133                                              | \$ 486                            |
| Charge-offs:             |                                 |                                                     |                                   |
| Commercial               | (8)                             | -                                                   | (8)                               |

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|                                  |               |               |               |
|----------------------------------|---------------|---------------|---------------|
| Commercial real estate           | (2)           | -             | (2)           |
| Foreign                          | (12)          | -             | (12)          |
| Other                            | (5)           | -             | (5)           |
| Total charge-offs                | (27)          | -             | (27)          |
| Recoveries:                      |               |               |               |
| Leasing                          | 2             | -             | 2             |
| Foreign                          | 3             | -             | 3             |
| Total recoveries                 | 5             | -             | 5             |
| Net charge-offs                  | (22)          | -             | (22)          |
| Provision                        | 34            | (4)           | 30            |
| <b>Balance at Sept. 30, 2008</b> | <b>\$ 365</b> | <b>\$ 129</b> | <b>\$ 494</b> |

## For the nine months ended

Sept. 30, 2008

| <i>(in millions)</i>             | Allowance<br>for loan<br>losses | Allowance<br>for lending-<br>related<br>commitments | Allowance<br>for credit<br>losses |
|----------------------------------|---------------------------------|-----------------------------------------------------|-----------------------------------|
| Balance, at Dec. 31, 2007        | \$ 327                          | \$ 167                                              | \$ 494                            |
| Charge-offs:                     |                                 |                                                     |                                   |
| Commercial                       | (19)                            | -                                                   | (19)                              |
| Commercial real estate           | (11)                            | -                                                   | (11)                              |
| Foreign                          | (17)                            | -                                                   | (17)                              |
| Other                            | (9)                             | -                                                   | (9)                               |
| Total charge-offs                | (56)                            | -                                                   | (56)                              |
| Recoveries:                      |                                 |                                                     |                                   |
| Commercial                       | 2                               | -                                                   | 2                                 |
| Leasing                          | 3                               | -                                                   | 3                                 |
| Foreign                          | 3                               | -                                                   | 3                                 |
| Total recoveries                 | 8                               | -                                                   | 8                                 |
| Net charge-offs                  | (48)                            | -                                                   | (48)                              |
| Sale of M1BB                     | (11)                            | (2)                                                 | (13)                              |
| SFAS 159 adoption                | (10)                            | -                                                   | (10)                              |
| Provision                        | 107                             | (36)                                                | 71                                |
| <b>Balance at Sept. 30, 2008</b> | <b>\$ 365</b>                   | <b>\$ 129</b>                                       | <b>\$ 494</b>                     |

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**For the quarter ended****Sept. 30, 2007**

| <i>(in millions)</i>             | Allowance<br>for loan<br>losses | Allowance<br>for lending-<br>related<br>commitments | Allowance<br>for credit<br>losses |
|----------------------------------|---------------------------------|-----------------------------------------------------|-----------------------------------|
| Balance, at June 30, 2007        | \$ 282                          | \$ 133                                              | \$ 415                            |
| Merger with Mellon Financial     | 43                              | 87                                                  | 130                               |
| Charge-offs - Leasing            | (37)                            | -                                                   | (37)                              |
| Recoveries - Leasing             | 2                               | -                                                   | 2                                 |
| Net charge-offs                  | (35)                            | -                                                   | (35)                              |
| Provision                        | 42                              | (42)                                                | -                                 |
| <b>Balance at Sept. 30, 2007</b> | <b>\$ 332</b>                   | <b>\$ 178</b>                                       | <b>\$ 510</b>                     |

**For the nine months ended****Sept. 30, 2007**

| <i>(in millions)</i>             | Allowance<br>for loan<br>losses | Allowance<br>for lending-<br>related<br>commitments | Allowance<br>for credit<br>losses |
|----------------------------------|---------------------------------|-----------------------------------------------------|-----------------------------------|
| Balance at Dec. 31, 2006         | \$ 287                          | \$ 150                                              | \$ 437                            |
| Merger with Mellon Financial     | 43                              | 87                                                  | 130                               |
| Charge-offs:                     |                                 |                                                     |                                   |
| Commercial                       | -                               | (5)                                                 | (5)                               |
| Leasing                          | (37)                            | -                                                   | (37)                              |
| Total charge-offs                | (37)                            | (5)                                                 | (42)                              |
| Recoveries - Leasing             | 15                              | -                                                   | 15                                |
| Net charge-offs                  | (22)                            | (5)                                                 | (27)                              |
| Provision                        | 24                              | (54)                                                | (30)                              |
| <b>Balance at Sept. 30, 2007</b> | <b>\$ 332</b>                   | <b>\$ 178</b>                                       | <b>\$ 510</b>                     |

**Note 7 Other assets****Other assets**

| <i>(in millions)</i>                                          | Sept. 30,<br>2008 | Dec. 31,<br>2007 |
|---------------------------------------------------------------|-------------------|------------------|
| Accounts receivable                                           | \$ 5,467          | \$ 4,889         |
| Corporate/bank owned life insurance                           | 3,699             | 3,599            |
| Equity in joint ventures and other investments <sup>(a)</sup> | 2,479             | 2,400            |
| Fails to deliver                                              | 2,499             | 1,650            |
| Prepaid pension assets                                        | 1,778             | 1,657            |
| Software                                                      | 580               | 519              |
| Prepaid expenses                                              | 408               | 329              |
| Due from customers on acceptances                             | 253               | 81               |
| Margin deposits                                               | 548               | 511              |
| Other                                                         | 437               | 1,041            |
| <b>Total other assets</b>                                     | <b>\$ 18,148</b>  | <b>\$ 16,676</b> |

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

## Note 8 Net interest revenue

| Net interest revenue<br>(in millions)                                    | Sept. 30,<br>2008     | Quarter ended<br>June 30,<br>2008 | Sept. 30,<br>2007 | Nine months ended<br>Sept. 30,<br>2008 | Sept. 30,<br>2007 <sup>(a)</sup> |
|--------------------------------------------------------------------------|-----------------------|-----------------------------------|-------------------|----------------------------------------|----------------------------------|
| <b>Interest revenue</b>                                                  |                       |                                   |                   |                                        |                                  |
| Non-margin loans                                                         | \$ 253 <sup>(b)</sup> | \$ 21 <sup>(b)</sup>              | \$ 534            | \$ 760 <sup>(b)</sup>                  | \$ 1,361                         |
| Margin loans                                                             | 48                    | 48                                | 84                | 154                                    | 255                              |
| Securities:                                                              |                       |                                   |                   |                                        |                                  |
| Taxable                                                                  | 543                   | 550                               | 641               | 1,702                                  | 1,264                            |
| Exempt from federal income taxes                                         | 9                     | 6                                 | 8                 | 24                                     | 10                               |
| Total securities                                                         | 552                   | 556                               | 649               | 1,726                                  | 1,274                            |
| Other short-term investments-U.S. government-backed commercial paper     | 7                     | -                                 | -                 | 7                                      | -                                |
| Deposits in banks                                                        | 431                   | 412                               | 419               | 1,255                                  | 798                              |
| Federal funds sold and securities purchased under resale agreements      | 35                    | 37                                | 73                | 136                                    | 207                              |
| Trading assets                                                           | 13                    | 18                                | 19                | 49                                     | 66                               |
| Total interest revenue                                                   | 1,339 <sup>(b)</sup>  | 1,092 <sup>(b)</sup>              | 1,778             | 4,087 <sup>(b)</sup>                   | 3,961                            |
| <b>Interest expense</b>                                                  |                       |                                   |                   |                                        |                                  |
| Deposits                                                                 | 432                   | 477                               | 772               | 1,524                                  | 1,659                            |
| Borrowings from Federal Reserve related to asset-backed commercial paper | 5                     | -                                 | -                 | 5                                      | -                                |
| Federal funds purchased and securities sold under repurchase agreements  | 16                    | 11                                | 50                | 53                                     | 85                               |
| Other borrowed funds                                                     | 19                    | 23                                | 35                | 71                                     | 72                               |
| Customer payables                                                        | 18                    | 18                                | 48                | 60                                     | 137                              |
| Long-term debt                                                           | 146                   | 152                               | 204               | 493                                    | 460                              |
| Total interest expense                                                   | 636                   | 681                               | 1,109             | 2,206                                  | 2,413                            |
| Net interest revenue                                                     | \$ 703 <sup>(b)</sup> | \$ 411 <sup>(b)</sup>             | \$ 669            | \$ 1,881 <sup>(b)</sup>                | \$ 1,548                         |

a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

b) Includes the SILO/LILO charges of \$112 million in the third quarter of 2008, the SILO charge of \$377 million recorded in the second quarter of 2008, resulting in \$489 million in the first nine months of 2008.

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 9 Noninterest expense****Noninterest expense**

|                                                  | Quarter Ended     |                  |                   | Nine months ended |                                  |
|--------------------------------------------------|-------------------|------------------|-------------------|-------------------|----------------------------------|
|                                                  | Sept. 30,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2007 | Sept. 30,<br>2008 | Sept. 30,<br>2007 <sup>(a)</sup> |
| (in millions)                                    |                   |                  |                   |                   |                                  |
| Staff                                            | \$ 1,218          | \$ 1,391         | \$ 1,280          | \$ 3,961          | \$ 2,752                         |
| Professional, legal and other purchased services | 287               | 280              | 241               | 819               | 503                              |
| Net occupancy                                    | 164               | 139              | 144               | 432               | 304                              |
| Distribution and servicing                       | 133               | 131              | 127               | 394               | 135                              |
| Furniture and equipment                          | 80                | 79               | 80                | 238               | 184                              |
| Software                                         | 78                | 88               | 91                | 245               | 202                              |
| Business development                             | 62                | 75               | 56                | 203               | 123                              |
| Sub-custodian                                    | 58                | 62               | 58                | 181               | 134                              |
| Communications                                   | 36                | 33               | 33                | 101               | 75                               |
| Clearing                                         | 22                | 21               | 52                | 52                | 133                              |
| Support agreement charges                        | 726               | (9)              | -                 | 731               | -                                |
| Amortization of intangible assets                | 120               | 124              | 131               | 366               | 188                              |
| Merger and integration expenses                  | 111               | 149              | 218               | 386               | 280                              |
| Other                                            | 237               | 191              | 195               | 598               | 354                              |
| Total noninterest expense                        | \$ 3,332          | \$ 2,754         | \$ 2,706          | \$ 8,707          | \$ 5,367                         |

(a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

**Note 10 Employee benefit plans**

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

**Net periodic benefit cost (credit)**

|                            | Sept. 30, 2008                  |                                |                            | Quarter ended<br>June 30, 2008  |                                |                            | Sept. 30, 2007                  |                                |                            |
|----------------------------|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|---------------------------------|--------------------------------|----------------------------|
|                            | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits |
| (in millions)              |                                 |                                |                            |                                 |                                |                            |                                 |                                |                            |
| Service cost               | \$ 19                           | \$ 7                           | \$ 1                       | \$ 19                           | \$ 7                           | \$ 1                       | \$ 20                           | \$ 7                           | \$ -                       |
| Interest cost              | 36                              | 7                              | 4                          | 36                              | 7                              | 4                          | 35                              | 5                              | 5                          |
| Expected return on assets  | (73)                            | (10)                           | (2)                        | (73)                            | (10)                           | (1)                        | (69)                            | (9)                            | (1)                        |
| Other                      | 6                               | 1                              | 2                          | 19                              | 1                              | 2                          | 5                               | 1                              | 2                          |
| Net periodic cost (credit) | \$ (12)                         | \$ 5                           | \$ 5                       | \$ 1                            | \$ 5                           | \$ 6                       | \$ (9)                          | \$ 4                           | \$ 6                       |

**Net periodic benefit cost (credit)**

|               | Sept. 30, 2008                  |                                |                            | Nine months ended<br>Sept. 30, 2007 <sup>(a)</sup> |                                |                            |
|---------------|---------------------------------|--------------------------------|----------------------------|----------------------------------------------------|--------------------------------|----------------------------|
|               | Domestic<br>pension<br>benefits | Foreign<br>pension<br>benefits | Health<br>care<br>benefits | Domestic<br>pension<br>benefits                    | Foreign<br>pension<br>benefits | Health<br>care<br>benefits |
| (in millions) |                                 |                                |                            |                                                    |                                |                            |

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|                            |         |       |       |        |       |       |
|----------------------------|---------|-------|-------|--------|-------|-------|
| Service cost               | \$ 57   | \$ 21 | \$ 3  | \$ 40  | \$ 11 | \$ -  |
| Interest cost              | 108     | 21    | 12    | 59     | 11    | 11    |
| Expected return on assets  | (219)   | (30)  | (4)   | (121)  | (17)  | (3)   |
| Other                      | 28      | 3     | 6     | 15     | 3     | 6     |
| Net periodic cost (credit) | \$ (26) | \$ 15 | \$ 17 | \$ (7) | \$ 8  | \$ 14 |

(a) Results for nine months ended Sept. 30, 2007 include six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 11 Income taxes**

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

| Effective tax rate                                              | Nine months ended |                                  |
|-----------------------------------------------------------------|-------------------|----------------------------------|
|                                                                 | Sept. 30,<br>2008 | Sept. 30,<br>2007 <sup>(a)</sup> |
| Federal rate                                                    | 35.0%             | 35.0%                            |
| State and local income taxes, net of federal income tax benefit | 4.8               | 1.4                              |
| Credit for synthetic fuel investments                           | 0.1               | (1.1)                            |
| Credit for low-income housing investments                       | (1.8)             | (1.1)                            |
| Tax-exempt income                                               | (2.5)             | (1.4)                            |
| Foreign operations                                              | (7.7)             | (2.6)                            |
| SILO adjustment                                                 | 6.7               | -                                |
| Other - net                                                     | (2.8)             | 0.3                              |
| Effective rate                                                  | 31.8%             | 30.5%                            |

(a) Includes six months of legacy The Bank of New York Company, Inc. and three months of The Bank of New York Mellon Corporation.

Our total tax reserves as of Sept. 30, 2008 were \$159 million compared with \$1.7 billion at June 30, 2008. The decrease is primarily due to the settlement of the SILO/LILO issues. If these tax reserves were unnecessary, \$119 million would affect the effective tax rate in future periods and \$40 million would affect goodwill. We recognize accrued interest and penalties, if applicable, related to income taxes in income tax expense. Included in the balance sheet as of Sept. 30, 2008 is accrued interest, where applicable, of \$41 million. The additional tax expense related to interest for the nine months ended Sept. 30, 2008 was \$244 million.

Our federal consolidated income tax returns are closed to examination through 2002. Our New York State and New York City return examinations have been completed through 1996. Our United Kingdom income tax returns are closed through 2002.

**Note 12 Fair value measurement**

We adopted SFAS 157, ( Fair Value Measurement ), effective Jan. 1, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. It establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to

the valuation of an asset or liability as of the measurement date and expands the disclosures about instruments measured at fair value. SFAS 157 requires consideration of a company's own creditworthiness when valuing liabilities. SFAS 157 also nullified the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique and eliminated large position discounts for financial instruments quoted in active markets.

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

*Determination of fair value*

Following is a description of our valuation methodologies for assets and liabilities measured at fair value. Such valuation methodologies were applied to all of the assets and liabilities carried at fair value, whether as a result of the adoption of SFAS 159 or previously carried at fair value. We have established processes for determining fair values. Fair value is based upon quoted market prices, where available. For financial instruments where quotes from recent exchange transactions are not available, we determine fair value based on discounted cash flow analysis, comparison to similar instruments, and the use of financial models. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Model-based pricing uses inputs of observable prices for interest rates, foreign exchange rates, option volatilities

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and other factors. Models are benchmarked and validated by an independent internal risk management function. Our valuation process takes into consideration factors such as counterparty credit quality, liquidity, concentration concerns, observability of model parameters and the results of stress tests. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

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

Most derivative contracts are valued using internally developed models which are calibrated to observable market data and employ standard market pricing theory for their valuations. An initial risk-neutral valuation is performed on each position assuming time-discounting based on an AA credit curve. Then, to arrive at a fair value that incorporates counterparty credit risk, a credit adjustment is made to these results by discounting each trade's expected exposures to the counterparty using the counterparty's credit spreads, as implied by the credit default swap market. We also adjust expected liabilities to the counterparty using the Bank's own credit spreads, also implied by the credit default swap market. We began incorporating the credit risk adjustments on Jan. 1, 2008.

In certain cases, we may face additional costs to exit large risk positions or recent prices may not be observable for instruments that trade in inactive or less active markets. The costs to exit large risk positions are based on evaluating the negative change in the market during the time it would take for us to bring those positions to normal market levels for those instruments. Upon evaluating the uncertainty in valuing financial instruments subject to liquidity issues, we make an adjustment to their value. The determination of the liquidity adjustment includes the availability of external quotes, the time since the latest available quote and the price volatility of the instrument.

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

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

#### *Valuation hierarchy*

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

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

Level 2: Observable inputs other than Level 1 prices, for example, quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs that are observable or can be corroborated, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 assets and liabilities include debt instruments that are traded less frequently than exchange traded securities and derivative instruments whose model inputs are observable in the market or can be corroborated by market observable data. Examples in this category are certain variable and fixed rate agency and non-agency mortgage-backed securities, corporate debt securities and derivative contracts.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Examples in this category include interests in certain securitized financial assets, certain private equity investments, and derivative contracts that are highly structured or long-dated. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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



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

#### *Loans and unfunded lending-related commitments*

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

Loans carried at fair value include loans for which the fair value option was elected (see Note 13) and are included in Loans and also include loans in trading assets on the balance sheet. Unrealized gains and losses on unfunded lending commitments carried at fair value are classified in Other assets and Other liabilities, respectively. Loans and unfunded lending commitments carried at fair value are generally classified within Level 2 of the valuation hierarchy.

#### *Securities*

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

#### *Other short-term U.S. government-backed commercial paper and borrowings from Federal Reserve related to asset-backed commercial paper*

These instruments are classified in Level 2 of the valuation hierarchy. The fair value of these instruments is estimated using pricing models.

#### *Derivatives*

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

#### *Seed capital*

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



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

to sell their ownership interest back to the fund less frequently than monthly in Level 3, unless actual redemption prices are observable.

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

#### *Certain interests in securitizations*

For certain interests in securitizations which are classified in securities available-for-sale and other assets, we use discounted cash flow models which generally include assumptions of projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and estimates of payments to third-party investors. When available, we compare our fair value estimates and assumptions to market activity and to the actual results of the securitized portfolio. Changes in these assumptions may significantly impact our estimate of fair value of the interests in securitizations; accordingly, we generally classify them in Level 3 of the valuation hierarchy.

#### *Private equity investments*

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

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

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

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

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

| <i>(dollar amounts in millions)</i>                                     | Level 1         | Level 2          | Level 3       | Netting <sup>(e)</sup> | Total carrying value |
|-------------------------------------------------------------------------|-----------------|------------------|---------------|------------------------|----------------------|
| Available-for-sale securities <sup>(a)</sup>                            | \$ 977          | \$ 32,433        | \$ 500        | \$ -                   | \$ 33,910            |
| Other short-term U.S. government-backed commercial paper                | -               | 10,865           | -             | -                      | 10,865               |
| Trading assets:                                                         |                 |                  |               |                        |                      |
| Debt and equity instruments <sup>(b)</sup>                              | 915             | 1,260            | 32            | -                      | 2,207                |
| Derivative assets                                                       | 6,397           | 8,324            | 129           | (8,966)                | 5,884                |
| Other assets <sup>(c)</sup>                                             | 251             | 313              | 272           | -                      | 836                  |
| <b>Total assets at fair value</b>                                       | <b>\$ 8,540</b> | <b>\$ 53,195</b> | <b>\$ 933</b> | <b>\$ (8,966)</b>      | <b>\$ 53,702</b>     |
| Percent of assets prior to netting                                      | 13.6%           | 84.9%            | 1.5%          |                        |                      |
| Borrowing from Federal Reserve related to asset-backed commercial paper | \$ -            | \$ 10,865        | \$ -          | \$ -                   | \$ 10,865            |
| Trading liabilities:                                                    |                 |                  |               |                        |                      |
| Debt and equity instruments                                             | 296             | 161              | 2             | -                      | 459                  |
| Derivative liabilities                                                  | 6,421           | 8,420            | 60            | (9,632)                | 5,269                |
| Total trading liabilities                                               | 6,717           | 8,581            | 62            | (9,632)                | 5,728                |
| Other liabilities <sup>(d)</sup>                                        | -               | 258              | 39            | -                      | 297                  |
| <b>Total liabilities at fair value</b>                                  | <b>\$ 6,717</b> | <b>\$ 19,704</b> | <b>\$ 101</b> | <b>\$ (9,632)</b>      | <b>\$ 16,890</b>     |
| Percent of liabilities prior to netting                                 | 25.3%           | 74.3%            | 0.4%          |                        |                      |

<sup>(a)</sup> Includes seed capital and certain interests in securitizations.

<sup>(b)</sup> Includes loans classified as trading assets.

<sup>(c)</sup> Includes private equity investments, seed capital and derivatives in designated hedging relationships. Includes certain financial instruments previously carried at fair value such as private equity investments whose accounting basis has not changed under a SFAS 159 fair value option election.

<sup>(d)</sup> Included within other liabilities is the fair value adjustment for certain unfunded lending-related commitments and derivatives in designated hedging relationships and support agreements.

<sup>(e)</sup> FIN 39 permits the netting of derivative receivables and derivative payables under legally enforceable master netting agreements and permits the netting of cash collateral.

**Changes in Level 3 fair value measurements**

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

Our classification of a financial instrument in Level 3 of the valuation hierarchy is based on the significance of the unobservable factors to the overall fair value measurement. However, these instruments generally

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



**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Fair value measurements using significant unobservable inputs****three months ended Sept. 30, 2008**

| Fair value measurements using significant unobservable inputs |               |                                                      |                                           |                             |                           |          | Change in                                |
|---------------------------------------------------------------|---------------|------------------------------------------------------|-------------------------------------------|-----------------------------|---------------------------|----------|------------------------------------------|
| three months ended Sept. 30, 2008                             |               |                                                      |                                           |                             |                           |          | unrealized gains and (losses) related to |
|                                                               | Fair Value    | Total realized/unrealized gains/(losses) recorded in | Purchases, issuances and settlements, net | Transfers in/out of Level 3 | Fair value Sept. 30, 2008 |          | instruments held at Sept. 30, 2008       |
| (in millions)                                                 | June 30, 2008 | Income                                               | Comprehensive income                      |                             |                           |          |                                          |
| Available-for-sale securities                                 | \$ 784        | \$ -                                                 | \$ 18 (a)                                 | \$ (302)                    | \$ -                      | \$ 500   | \$ 23                                    |
| Trading assets:                                               |               |                                                      |                                           |                             |                           |          |                                          |
| Debt and equity instruments                                   | 18            | (2)                                                  | (1)                                       | (4)                         | 21                        | 32       | -                                        |
| Derivative assets                                             | 200           | -                                                    | (82)                                      | (10)                        | 21                        | 129      | (65)                                     |
| Other assets                                                  | 262           | 9(c)                                                 | -                                         | (4)                         | 5                         | 272      | -                                        |
| Total assets                                                  | \$ 1,264      | \$ 7                                                 | \$ (65)                                   | \$ (320)                    | \$ 47                     | \$ 933   | \$ (42)                                  |
| Trading liabilities:                                          |               |                                                      |                                           |                             |                           |          |                                          |
| Debt and equity instruments                                   | \$ -          | \$ (2)(b)                                            | \$ -                                      | \$ -                        | \$ -                      | \$ (2)   | \$ -                                     |
| Derivative liabilities                                        | (45)          | 1 (b)                                                | (16)                                      | -                           | -                         | (60)     | (21)                                     |
| Other liabilities                                             | (67)          | 25 (c)                                               | -                                         | 3                           | -                         | (39)     | 25                                       |
| Total liabilities                                             | \$ (112)      | \$ 24                                                | \$ (16)                                   | \$ 3                        | \$ -                      | \$ (101) | \$ 4                                     |

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

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

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

**Fair value measurements using significant unobservable inputs****nine months ended Sept. 30, 2008**

| Fair value measurements using significant unobservable inputs |                                    |                                                                    |                      |                                           |                             |                           | Change in                                                                   |
|---------------------------------------------------------------|------------------------------------|--------------------------------------------------------------------|----------------------|-------------------------------------------|-----------------------------|---------------------------|-----------------------------------------------------------------------------|
| nine months ended Sept. 30, 2008                              |                                    |                                                                    |                      |                                           |                             |                           | unrealized gains and (losses) related to instruments held at Sept. 30, 2008 |
| (in millions)                                                 | Fair Value<br><br>Dec. 31,<br>2008 | Total realized/unrealized gains/(losses) recorded in<br><br>Income | Comprehensive income | Purchases, issuances and settlements, net | Transfers in/out of Level 3 | Fair value Sept. 30, 2008 |                                                                             |
| Available-for-sale securities                                 | \$ 853                             | \$ (106) <sup>(a)</sup>                                            | \$ 61 <sup>(a)</sup> | \$ (282)                                  | \$ (26)                     | \$ 500                    | \$ (40)                                                                     |
| Trading assets:                                               |                                    |                                                                    |                      |                                           |                             |                           |                                                                             |
| Debt and equity instruments                                   | -                                  | (12)                                                               | (1)                  | (2)                                       | 47                          | 32                        | (12)                                                                        |
| Derivative assets                                             | 166                                | 46 <sup>(b)</sup>                                                  | (82)                 | (20)                                      | 19                          | 129                       | (10)                                                                        |
| Other assets                                                  | 243                                | 20 <sup>(c)</sup>                                                  | -                    | 5                                         | 4                           | 272                       | 5                                                                           |
| Total assets                                                  | \$ 1,262                           | \$ (52)                                                            | \$ (22)              | \$ (299)                                  | \$ 44                       | \$ 933                    | \$ (57)                                                                     |
| Trading liabilities:                                          |                                    |                                                                    |                      |                                           |                             |                           |                                                                             |
| Debt and equity instruments                                   | \$ -                               | \$ (2)                                                             | \$ -                 | \$ -                                      | \$ -                        | \$ (2)                    | \$ -                                                                        |
| Derivative liabilities                                        | (34)                               | (8) <sup>(b)</sup>                                                 | (16)                 | (2)                                       | -                           | (60)                      | (36)                                                                        |
| Other liabilities                                             | (50)                               | 10 <sup>(c)</sup>                                                  | -                    | 3                                         | (2)                         | (39)                      | 11                                                                          |
| Total liabilities                                             | \$ (84)                            | \$ -                                                               | \$ (16)              | \$ 1                                      | \$ (2)                      | \$ (101)                  | \$ (25)                                                                     |

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

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

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

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### *Assets and liabilities measured at fair value on a nonrecurring basis*

Under certain circumstances we make adjustments to fair value our assets, liabilities and unfunded lending-related commitments although they are not measured at fair value on an ongoing basis. An example would be the recording

of an impairment of an asset. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy as of Sept. 30, 2008, for which a nonrecurring change in fair value has been recorded during the quarter ended Sept. 30, 2008.

**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Assets measured at fair value on a nonrecurring basis at Sept. 30, 2008**

|                                                           |              |              |               | Total          |
|-----------------------------------------------------------|--------------|--------------|---------------|----------------|
| (in millions)                                             | Level 1      | Level 2      | Level 3       | carrying value |
| Loans <sup>(a)</sup>                                      | \$ 19        | \$ 26        | \$ 153        | \$ 198         |
| Other assets <sup>(b)</sup>                               | -            | 2            | -             | 2              |
| <b>Total assets at fair value on a nonrecurring basis</b> | <b>\$ 19</b> | <b>\$ 28</b> | <b>\$ 153</b> | <b>\$ 200</b>  |

(a) During the third quarter and nine months ended Sept. 30, 2008, the fair value of these loans was reduced \$30 million and \$51 million, respectively, based on the fair value of the underlying collateral as allowed by SFAS 114, Accounting by Creditors for Impairment of a loan, with an offset to the allowance for credit losses.

(b) Includes assets received in satisfaction of debt. The fair value of these assets was reduced \$1 million in the third quarter of 2008 and was reduced \$2 million in the first nine months of 2008, based on the fair value of the underlying collateral with an offset in foreign exchange and other trading activities.

**Note 13 Fair value option**

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

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

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

In the third quarter of 2008, we elected the fair value option on \$10.9 billion of other short-term U.S. government-backed commercial paper and \$10.9 billion of borrowings from Federal Reserve related to asset-backed commercial paper. The fair value of these securities is determined using pricing models. There is a high correlation between these instruments. As a result, the fair value election mitigates volatility to net income. The details of the impact of adopting SFAS 159 by financial statement line caption as of Jan. 1, 2008, are presented below.

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

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

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

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



**Table of Contents****Notes to Consolidated Financial Statements** (continued)*Changes in fair value under the fair value option election*

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

**Foreign exchange and other trading activities**

| <i>(in millions)</i> | <b>Three months ended<br/>Sept. 30, 2008</b> | <b>Nine months ended<br/>Sept. 30, 2008</b> |
|----------------------|----------------------------------------------|---------------------------------------------|
| Loans                | \$ -                                         | \$ 66                                       |
| Other liabilities    | 2                                            | 1                                           |

At Sept. 30, 2008, all loans for which fair value had been elected were paid-in-full.

At Sept. 30, 2008, the fair market value of unfunded lending-related commitments for which the fair value option was elected was a liability of less than \$1 million, which is included in accounts payable, accrued expenses and other liabilities. The contractual amount of such commitments was \$110 million.

**Note 14 Derivatives and hedging relationships**

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

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

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

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

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We discontinue hedge accounting prospectively when we determine that a derivative is no longer an effective hedge, the derivative expires, is sold, or management discontinues the derivative's hedge designation. Subsequent gains and losses on these

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

derivatives are included in foreign exchange and other trading activities.

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

We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations. For hedges of fixed rate loans, asset-backed securities, deposits and long-term debt, the hedge documentation specifies the terms of the hedged items and interest rate swaps and indicates that the derivative is hedging a fixed rate item and is a fair value hedge, that the hedge exposure is to the changes in the fair value of the hedged item due to changes in benchmark interest rates, and that the strategy is to eliminate fair value variability by converting fixed rate interest payments to LIBOR.

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

The securities hedged generally have an original weighted-average life of 10 years or less and are callable six months prior to maturity. These securities are hedged with pay fixed rate, receive variable rate swaps of like maturity, repricing and fixed rate coupon. The swaps are callable six months prior to maturity. At Sept. 30, 2008, \$219 million of securities were hedged with interest rate swaps which had notional values of \$219 million.

The fixed rate deposits hedged generally have original maturities of 3 to 12 years and, except for four deposits, are not callable. These deposits are hedged with receive fixed rate, pay variable rate swaps of similar maturity, repricing and fixed rate coupon. The swaps are not callable except for the four that hedge the callable deposits. At Sept. 30, 2008, \$590 million of deposits were hedged with interest rate swaps which had notional values of \$590 million.

The fixed rate long-term debt hedged generally has an original maturity of 5 to 30 years. We issue both callable and non-callable debt. The non-callable debt is hedged with simple interest rate swaps similar to those described for deposits. Callable debt is hedged with callable swaps where the call dates of the swaps exactly match the call dates of the debt. At Sept. 30, 2008, \$11.6 billion of debt was hedged with interest rate swaps which had notional values of \$10.3 billion.

In addition, we enter into foreign exchange hedges. We use forward foreign exchange contracts with maturities of 12 months or less to hedge our Sterling and Euro foreign exchange exposure with respect to forecasted revenue transactions in non-U.S. entities which have the U.S. dollar as their functional currency. As of Sept. 30, 2008, the hedged forecasted foreign currency transactions and linked FX forward hedges were \$87 million, with \$3 million (pre-tax) of gains recorded in other comprehensive income. These gains are expected to be reclassified to income over the next nine months.

Forward foreign exchange contracts are also used to hedge the value of our investments in foreign subsidiaries. These forward contracts usually have a maturity of less than two years. The derivatives employed are designated as net investment hedges of changes in value of our foreign investments due to exchange rates, such that changes in value of the forward exchange contracts offset the changes in value of the foreign investments due to changes in foreign exchange rates. The change in fair market value of these contracts is deferred and reported within accumulated translation adjustments in shareholders' equity, net of tax effects. At Sept. 30, 2008, foreign exchange contracts, with notional amounts totaling \$4.1 billion, were designated as hedges.

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

**Ineffectiveness**  
(in millions)

Nine months ended  
**Sept. 30,** Sept. 30,

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|                                                 | 2008    | 2007   |
|-------------------------------------------------|---------|--------|
| Fair value hedge of loans                       | \$ 0.2  | \$ 0.1 |
| Fair value hedge of securities                  | (0.1)   | 0.1    |
| Fair value hedge of deposits and long-term debt | 12.6    | 3.4    |
| Cash flow hedges                                | (0.1)   | 0.1    |
| Other <sup>(a)</sup>                            | 0.1     | (0.3)  |
| Total                                           | \$ 12.7 | \$ 3.4 |

(a) Includes ineffectiveness recorded on foreign exchange hedges.

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**Table of Contents****Notes to Consolidated Financial Statements** (continued)**Note 15 Commitments and contingent liabilities**

In the normal course of business, various commitments and contingent liabilities are outstanding which are not reflected in the accompanying consolidated balance sheets. Our significant trading and off-balance sheet risks are securities, foreign currency and interest rate risk management products, commercial lending commitments, letters of credit, and securities lending indemnifications. We assume these risks to reduce interest rate and foreign currency risks, to provide customers with the ability to meet credit and liquidity needs, to hedge foreign currency and interest rate risks, and to trade for our own account. These items involve, to varying degrees, credit, foreign exchange, and interest rate risk not recognized in the balance sheet. Our off-balance sheet risks are managed and monitored in manners similar to those used for on-balance sheet risks. Significant industry concentrations related to credit exposure are disclosed in the Financial institutions portfolio exposure table on page 46 and the Commercial portfolio exposure table on page 47. Those tables are incorporated by reference into these Notes to Consolidated Financial Statements. Major concentrations in securities lending are primarily to broker/dealers and are generally collateralized with cash. Securities lending transactions are discussed below.

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

**Off-balance sheet credit risks**

| <i>(in millions)</i>                 | <b>Sept. 30,<br/>2008</b> | <b>Dec. 31,<br/>2007</b> |
|--------------------------------------|---------------------------|--------------------------|
| Lending commitments <i>(a)</i>       | <b>\$41,493</b>           | <b>\$49,055</b>          |
| Standby letters of credit <i>(b)</i> | <b>13,472</b>             | <b>13,813</b>            |
| Commercial letters of credit         | <b>772</b>                | <b>1,167</b>             |
| Securities lending indemnifications  | <b>451,024</b>            | <b>618,487</b>           |
| Support agreements                   | <b>265 <i>(c)</i></b>     | <b>-</b>                 |

*(a) Net of participations totaling \$822 million at Sept. 30, 2008 and \$763 million at Dec. 31, 2007.*

*(b) Net of participations totaling \$2.550 billion at Sept. 30, 2008 and \$2.576 billion at Dec. 31, 2007.*

*(c) At Oct. 31, 2008, support agreement exposure was \$313 million.*

The total potential loss on undrawn lending commitments, standby and commercial letters of credit, and securities lending indemnifications is equal to the total notional amount if drawn upon, which does not consider the value of any collateral. Since many of the commitments are expected to expire without being

drawn upon, the total amount does not necessarily represent future cash requirements. We also extend facilities which provide liquidity, primarily for variable rate tax-exempt securities wrapped by monoline insurers. The credit approval for these facilities is based on an assessment of the underlying tax exempt issuer and considers factors other than the financial strength of the monoline insurer. The allowance for lending-related commitments was \$129 million at Sept. 30, 2008 and \$167 million at Dec. 31, 2007. A summary of lending commitment maturities at Sept. 30, 2008 is as follows: \$15 billion less than one year; \$25 billion in one to five years; and \$1 billion over five years.

Standby letters of credit principally support corporate obligations and include \$734 million that were collateralized with cash and securities on Sept. 30, 2008 and \$683 million on Dec. 31, 2007. At Sept. 30, 2008, approximately \$8.1 billion of the standby letters of credit were scheduled to expire within one year.

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

A securities lending transaction is a fully collateralized transaction in which the owner of a security agrees to lend the security through an agent (The Bank of New York Mellon) to a borrower, usually a broker/dealer or bank, on an open, overnight or term basis, under the terms of a prearranged contract, which generally matures in less than 90 days. We generally lend securities with indemnification against broker default. We generally require the borrower to provide 102% cash collateral which is monitored on a daily basis, thus reducing credit risk. Security lending transactions are generally entered into only with highly-rated counterparties. Securities lending indemnifications were secured by collateral of \$479 billion at Sept. 30, 2008 and \$637 billion at Dec. 31, 2007.

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At Oct. 31, 2008, our additional potential exposure to support agreements was approximately \$313 million, based on the securities subject to these agreements being value at zero and the NAV of the related funds declining below established thresholds. This exposure includes agreements covering Lehman securities, as well as previously

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

existing agreements covering SIV exposure. Future realized support agreement charges will principally depend on the price of Lehman securities, fund performance and the number of clients that accept our offer of support.

The notional amounts for other off-balance sheet risks express the dollar volume of the transactions; however, credit risk is much smaller. We perform credit reviews and enter into netting and collateral agreements to minimize the credit risk of foreign currency and interest rate risk management products. We enter into offsetting positions to reduce exposure to foreign exchange and interest rate risk.

#### *Asset-backed commercial paper conduit*

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

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

At Sept. 30, 2008, the authorized size of the program was \$150 million. OSF is funded by commercial paper (98%) and a subordinated funding loan (2%). OSF did not require liquidity support in the third quarter of 2008. There were no material write-downs of assets held by OSF in the first nine months of 2008. At Sept. 30, 2008, OSF held a \$126 million book value asset portfolio consisting of mortgage-backed securities, 65% of which were rated AAA and 35% were rated AA. At Sept. 30,

2008, a FIN 46R analysis was performed on OSF and it was not subject to consolidation by the Company. Consolidation of OSF would be immaterial to the assets of the Company.

#### *Municipal bond securitizations*

We sponsor approximately \$179 million of municipal bond securitizations for which no gain was recognized. These securitizations are comprised of \$101 million which are Aaa insured, \$61 million which are Aa3 insured and \$17 million which are A2 insured, monthly or quarterly variable rate bonds with borrowers rated no lower than A2 on Moody's municipal bond scale. All transactions were done at par value. These transactions generate approximately \$1 million of annual pre-tax equivalent income.

#### *Other*

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

As previously disclosed, on Aug. 6, 2008, the IRS announced a uniform settlement program for taxpayers participating in LILO and SILO transactions. In the third quarter of 2008, we executed a closing agreement with the IRS for the 1998 through 2002 audit cycle which resolved, with exception of one matter (for additional information see Legal Proceedings in Part II, Item 1 of this Form 10-Q.), all issues from this period. As part of the closing agreement, we accepted the IRS' uniform LILO and SILO settlement. We also settled our 1994 through 1996 New York State and New York City audits. The combined after-tax charge of these settlements was \$30 million.



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

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

As previously disclosed, in connection with the acquisition of the Acquired Corporate Trust Business of JPMorgan Chase, we were required to file various IRS information and withholding tax returns. While preparing these returns in 2007, we identified certain inconsistencies in the supporting tax documentation and records transferred to us that were needed to file accurate returns. For additional information, see Legal Proceedings in Part II, Item 1 of this Form 10-Q.

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

#### **Note 16 Business segments**

For details of our business segments, see Business segments review on page 19 through the bullet points on page 20, and the tables, through Average assets (excluding pre-tax operating margin) on pages 23 through 25. For details of the primary types of fee revenue generated by each segment, see the sector/segment overview table on page 21. The tables and information in those paragraphs are incorporated by reference into these Notes to Consolidated Financial Statements.

#### **Note 17 Related party transaction**

Included in interest-bearing deposits with banks at Sept. 30, 2008, is approximately \$17 billion of CDs purchased from money market mutual funds managed by Dreyfus. The acquisition of these CDs resulted in a loss of \$11 million in the third quarter of 2008, which was recorded in support agreement charges. Approximately \$8 billion of these CDs were repaid in

October 2008 without loss. In addition, in October 2008, the Company purchased approximately \$6 billion of CDs from the Dreyfus funds. Absent any credit deterioration, losses on these CDs will be amortized to income over the lives of the CDs, which have varying maturities through early 2009.

#### **Note 18 Subsequent event**

On Oct. 14, 2008, the U.S. government announced the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP) authorized under the Emergency Economic Stabilization Act (EESA). The intention of this program is to encourage U.S. financial institutions to build capital, to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Initially, nine large financial institutions agreed to participate in the program. On Oct. 14, 2008, the Company announced that it would be part of the initial group of nine institutions in which the U.S. Treasury would purchase an equity stake. The Company agreed to issue and sell to the U.S. Treasury preferred stock and a warrant to purchase shares of common stock in accordance with the terms of the CPP for an aggregate purchase price of \$3 billion. As a result, on Oct. 28, 2008, we issued \$3 billion of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, and a warrant as described below to the U.S. Treasury. The Series B preferred stock will pay cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of the investment and thereafter at a rate of 9% per annum. Dividends will be payable quarterly in arrears on March 20, June 20, Sept. 20 and Dec. 20 of each year. The Series B preferred stock can only be redeemed within the first three years with the proceeds of at least \$750 million from one or more qualified equity offerings. After Dec. 20, 2011, the Series B preferred stock may be redeemed, in whole or in part, at any time at our option. At a price equal to 100% of the issue price plus any accrued and unpaid interest. Redemption of the Series B preferred stock at any time will be subject to the prior approval of the Federal Reserve.

Issuance of the Series B preferred shares places restrictions on our common stock dividend and repurchases of common stock. Prior to the earlier of (i) the third anniversary of the closing date or (ii) the date on which the Series B preferred stock is redeemed in whole or the U.S. Treasury has transferred all of the Series B preferred stock to unaffiliated third parties, the consent of the U.S. Treasury is required to:



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

Pay any dividend on our common stock other than regular quarterly dividends of not more than our current quarterly dividend of \$0.24 per share; or

Redeem, purchase or acquire any shares of common stock or other capital stock or other equity securities of any kind of the Company or any trust preferred securities issued by the Company or any affiliate except in connection with (i) any benefit plan in the ordinary course of business consistent with past practice; (ii) market-making, stabilization or customer facilitation transactions in the ordinary course or; (iii) acquisitions by the Company as trustees or custodians.

In addition, until such time as the U.S. Treasury ceases to own any debt or equity securities of the Company acquired pursuant to the Oct. 28, 2008 closing or exercise of the warrant described below, the Company must ensure that its compensation, bonus, incentive and other benefit plans, arrangements and agreements (including so-called golden parachute, severance and employment agreements (collectively, **Benefit Plans** ) with respect to its senior executive officers (as defined in the EESA and regulations thereunder), comply with Section 111(b) of the EESA as implemented by any guidance and regulations issued and in effect on Oct. 28, 2008.

The Series B preferred stock qualifies as Tier I capital. Including the Series B preferred stock, the Tier I capital ratio at Sept. 30, 2008 would have been approximately 12%.

In connection with the issuance of the Series B preferred stock, we issued a warrant to purchase 14,516,129 shares of our common stock to the U.S. Treasury. The warrant has a 10-year term and an exercise price of \$31.00 per share. The warrant is immediately exercisable, in whole or in part. Exercise must be on a cashless basis unless the Company agrees to a cash exercise. However, the U.S. Treasury has agreed that it will not transfer or exercise the warrant for more than 50% of the shares covered until the earlier of (i) the date on which we receive aggregate gross proceeds of not less than \$3 billion from one or more qualified equity offerings, and (ii) Dec. 31, 2009. If the Company completes one or more qualified equity offerings on or prior to Dec. 31, 2009 that results in the Company receiving aggregate gross proceeds of not less than \$3 billion, the number of shares of common stock originally covered by the warrant will be reduced by one-half. The U.S. Treasury will not exercise voting power associated with any shares underlying the warrant. The warrant will be classified as permanent equity under GAAP.

The issuance of the Series B preferred stock is expected to reduce fully diluted earnings per share by approximately \$0.02 in the fourth quarter of 2008 and approximately \$0.10 in 2009.

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### **Item 1A. Risk Factors**

Our 2007 Annual Report on Form 10-K includes a detailed discussion of our risk factors. The information presented below updates and should be read in conjunction with the risk factors and information disclosed in that Form 10-K.

#### **Risk factors relating to our business and our common stock**

*Current difficult conditions in the global financial markets and the economy generally may materially adversely affect our business and results of operations.*

Our results of operations are materially affected by conditions in the global financial markets and the economy generally, both in the U.S. and elsewhere around the world. The stress experienced by global financial markets that began in the second half of 2007 continued and substantially increased during the third quarter of 2008. The volatility and disruption in the global financial markets have reached unprecedented levels. The availability and cost of credit has been materially affected. These factors, combined with volatile oil prices, depressed home prices and increasing foreclosures, falling equity market values, declining business and consumer confidence and the risks of increased inflation and unemployment, have precipitated an economic slowdown and fears of a severe recession.

The resulting economic pressure on consumers and lack of confidence in the financial markets may adversely affect certain portions of our business and our financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

We expect to face increased regulation of our industry, including as a result of the EESA. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.

The process we use to estimate losses inherent in our credit exposure and to ascertain the fair value of securities held by us is subject to uncertainty in that it requires difficult, subjective, and complex judgments, including forecasts of economic conditions and how these conditions might impair the ability of our borrowers and others to meet their obligations.

Our ability to borrow from other financial institutions or to access the public credit markets on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.

We may be required to pay significantly higher Federal Deposit Insurance Corporation premiums due to the FDIC's Temporary Liquidity Guarantee Program and because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

#### **Limits on common stock dividends**

Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so. Any reduction of, or the elimination of, our common stock dividend in the future could adversely affect the market price of our common stock. As part of the capital issuance referred to below under "Risks relating to our industry and financial markets", we agreed that for three years (or such prior time as the U.S. Treasury ceases to hold the securities issued by the Company) we will not pay any dividends on our common stock other than regular quarterly dividends of not more than \$0.24 per share. In addition, on Oct. 28, 2008, the Company issued to the U.S. Treasury, \$3 billion of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, which pays cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of the investment and thereafter at a rate of 9% per annum. The Series B preferred shares rank senior to the Company's common stock, and may impact the Company's ability to pay dividends on the common stock.



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### **Item 1A. Risk Factors** (continued)

#### **Risk factors relating to our industry and financial markets**

*There can be no assurance that recently enacted legislation authorizing the U.S. government to purchase large amounts of illiquid mortgages and mortgage-backed securities from financial institutions will help stabilize the U.S. financial system.*

On Oct. 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the EESA). The legislation was the result of a proposal by Treasury Secretary Henry Paulson to the U.S. Congress on Sept. 20, 2008 in response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Pursuant to the EESA, the U.S. Treasury will have the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. There can be no assurance, however, as to the actual impact that the EESA will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the EESA to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

*The soundness of other financial institutions could adversely affect us.*

Our ability to engage in routing funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have

led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations, or that the EESA will stabilize current market conditions.

*Any reduction in our credit rating could increase the cost of our funding from the capital markets.*

Our long-term debt is currently rated investment grade by the major rating agencies. These rating agencies regularly evaluate us and their ratings of our long-term debt are based on a number of factors, including our financial strength as well as factors not entirely within our control, including conditions affecting the financial services industry generally. In addition, rating agencies may employ different models and formulas to assess the financial strength of a rated company, and from time to time rating agencies have, in their discretion, altered these models. Changes to the models, general economic conditions, or other circumstances outside our control could impact a rating agency's judgment of its rating and the rating it assigns us.

In view of the difficulties experienced recently by many financial institutions, we believe that the rating agencies may heighten the level of scrutiny that they apply to such institutions, may increase the frequency and scope of their credit reviews, may request additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. The outcome of such a review may have adverse ratings consequences, which could have a material adverse effect on our results of operation, financial condition and affect the cost and other terms upon which we are able to obtain funding and increase our cost of capital. We cannot predict what actions rating agencies may take, or what actions we may be required to take in response to the actions of rating agencies, which may adversely affect us.



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

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

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

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

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

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

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### **Forward-looking Statements**

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

may make, words such as estimate, forecast, project, anticipate, confident, target, expect, intend, seek, believe, plan, goal, will, strategy, synergies, opportunities, superior returns, well-positioned, trends, pro forma and words of similar meaning, signify forward-looking statements.

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

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

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



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### **Part II Other information**

#### **Item 1. Legal Proceedings**

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

As previously disclosed in the Company's 2007 Annual Report on Form 10-K, The Federal Customs Service of the Russian Federation is pursuing a claim against The Bank of New York, now known as The Bank of New York Mellon (the "Bank"). The claim is based on allegations relating to the previously disclosed Russian funds transfer matter that was the subject of the Bank's Non-Prosecution Agreement and alleges violations of U.S. law by the Bank in failing to supervise and monitor funds transfer activities at the Bank. This lack of action is alleged to have resulted in underpayment to the Russian Federation of the value added taxes that were allegedly due to be paid by customers of the Bank's correspondent clients on certain goods imported into the country. The claim seeks \$22.5 billion in direct and indirect losses.

The Bank has been defending itself vigorously in this matter and intends to continue to do so. The Bank believes it has meritorious procedural and substantive defenses to the allegations in the Russian courts and also believes that if a judgment were to be entered in this

matter by the Russian courts, the Bank has meritorious defenses to an attempted enforcement of a judgment outside the Russian Federation in countries in which the Bank has material assets.

As previously disclosed in the Company's 2007 Annual Report on Form 10-K, during 2001 and 2002, we entered into various structured transactions that involved, among other things, the payment of U.K. corporate income taxes that were credited against our U.S. corporate income tax liability.

As previously disclosed, we received a letter from the IRS on Oct. 9, 2007 informing us that the IRS is considering designating one such transaction for litigation. On Sept. 17, 2008, we received a further letter from the IRS notifying us that our case had been referred to the IRS Chief Counsel for his consideration and decision. On Sept. 30, 2008, as part of our closing agreement for the 1998-2002 federal audit cycle (for additional information see Note 15 to the Notes to Consolidated Financial Statements), the IRS designated the transaction for litigation and we agreed to litigate in the U.S. Tax Court.

The transaction involved payments of U.K. corporate income taxes that generated foreign tax credits over the 2001-2006 period. The IRS has indicated it intends to seek to disallow the foreign tax credits primarily on the basis the transaction lacked economic substance. We are prepared to vigorously defend our position and believe the tax benefits associated with the transaction were consistent with IRS published guidance existing at the time the transaction was entered into and with various federal appellate court decisions. In the event the Company is unsuccessful in defending its position, the IRS has agreed not to assess underpayment penalties on this transaction.

As previously disclosed in the Company's 2007 Annual Report on Form 10-K, the Bank filed a proof of claim on Jan. 18, 2008, in the Chapter 11 bankruptcy of Sentinel Management Group, Inc. ("Sentinel"), seeking to recover approximately \$312 million loaned to Sentinel and secured by securities and cash in an account maintained by Sentinel at the Bank. At the time of the bankruptcy, the cash and securities collateral for the loan were valued at over \$600 million. On March 3, 2008, the Chapter 11 Trustee for Sentinel filed an adversary proceeding against the Bank seeking to disallow the Bank's claim and asserting a claim for damages against the Bank under a variety of theories including that the Bank aided and abetted certain insiders of Sentinel.



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### **Part II Other information**(continued)

in mis-appropriating customer assets and improperly using those assets as collateral for the loan. In January 2008, the Bank learned that the Commodities Futures Trading Commission (the CFTC) opened an investigation that includes a review of Sentinel's relationship with the Bank. While the timing and outcome of the bankruptcy is uncertain, the Company intends to vigorously pursue its claim.

As previously disclosed in the Company's 2007 Annual Report on Form 10-K, the SEC is investigating the trading activities of Pershing Trading Company LP, a floor specialist, on two regional exchanges from 1999 to 2004. Because the conduct at issue is alleged to have occurred largely during the period when Pershing was owned by Credit Suisse First Boston (USA), Inc. (CSFB), the Company has made claims for indemnification against CSFB relating to this matter under the agreement relating to the acquisition of Pershing. CSFB is disputing these claims for indemnification.

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

As previously disclosed, the Company self-disclosed to the SEC that Mellon Financial Markets LLC (MFM) placed orders on behalf of issuers to purchase their own Auction Rate Securities. The SEC and certain state authorities are investigating these transactions. MFM is cooperating fully with the investigations.

As previously disclosed, in the course of a routine review of customer accounts at Mellon Securities LLC (Mellon Securities), the Company became aware of circumstances suggesting that employees of Mellon Securities, which executes orders to purchase and sell securities on behalf of Mellon Investor Services LLC, failed to comply with certain best execution and regulatory requirements in connection with agency cross trades. The Company is reviewing the trades and is in the process of determining the extent of any remediation. The Company self-disclosed this matter to the Financial Industry Regulatory Authority (FINRA) and the SEC on a voluntary basis.

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

In August 2008, FINRA commenced an inquiry into BNY MCM concerning the sale of Auction Rate Securities (ARS). On Sept. 16, 2008, BNY MCM signed a Settlement Term Sheet with FINRA to resolve the investigation with a censure without admitting or denying FINRA's findings that the firm sold ARS using advertising or marketing materials that were not fair and balanced. BNY MCM agreed to buy back certain ARS from the relevant class who purchased ARS from May 31, 2006 through Feb. 28, 2008 (total par value of approximately \$20 million) and to pay a \$250,000 fine.

**Table of Contents****Part II Other information** (continued)**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) On Sept. 29, 2008, the Company issued 152,355 shares of Common Stock in reliance upon the exemption from securities registration provided in Section 4(2) of the Securities Act of 1933. The shares were issued to the former shareholders of The Arden Group, Inc. ( "Arden Group" ) as further consideration for the acquisition of all the assets of The Arden Group by the Company. The former Arden Group shareholders may receive additional shares of Common Stock from time to time if certain conditions are met. The shares were issued to three sophisticated investors who acquired the shares for their own account and who represented that any sales would be pursuant to an effective registration statement or an applicable exemption from registration.

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

*Issuer purchases of equity securities***Share repurchases during third quarter 2008**

|                       | Total              | Average  | Total shares |
|-----------------------|--------------------|----------|--------------|
| <i>(common shares</i> | shares             | price    | repurchased  |
| <i>in thousands)</i>  | repurchased        | per      | as part of   |
|                       |                    | share    | a publicly   |
|                       |                    |          | announced    |
|                       |                    |          | plan         |
| July 2008             | 210                | \$ 40.55 | -            |
| August 2008           | 20                 | \$ 36.90 | -            |
| September 2008        | 33                 | \$ 42.01 | -            |
| Third quarter 2008    | 263 <sup>(a)</sup> | \$ 40.46 | -            |

(a) Represents 263 thousand shares at a purchase price of approximately \$11 million purchased from employees primarily in connection with the employees payment of taxes upon the vesting of restricted stock.

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

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

Under the TARP Capital Purchase Program, prior to the earlier of (i) Oct. 28, 2011, or (ii) the date on which the Series B preferred stock is redeemed in whole or the U.S. Treasury has transferred all of the Series B preferred stock to unaffiliated third parties, the consent of the U.S. Treasury is required to repurchase any shares of common stock except in connection with benefit plans in the ordinary course of business and certain other limited exceptions described above.

**Item 6. Exhibits**

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

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allocation of risk among the parties to such agreements and (iv) may apply materiality standards different from what may be viewed as material to investors. Accordingly, these representations and warranties may not describe our actual state of affairs at the date hereof and should not be relied upon.

- 2.1 Amended and Restated Agreement and Plan of Merger, dated as of Dec. 3, 2006, as amended and restated as of Feb. 23, 2007, and as further amended and restated as of March 30, 2007, between The Bank of New York Company, Inc., Mellon Financial Corporation and The Bank of New York Mellon Corporation (the Company), incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the SEC on July 2, 2007.
- 3.1 Restated Certificate of Incorporation of The Bank of New York Mellon Corporation, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K as filed with the SEC on July 2, 2007.
- 3.2 Amended and Restated By-Laws of The Bank of New York Mellon Corporation, as amended

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### **Part II Other information**(continued)

- and restated on July 10, 2007, incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, as filed with the SEC on Aug. 8, 2007.
- 4.1 None of the instruments defining the rights of holders of long-term debt of the Company, the creation of which was disclosed in this Quarterly Report on Form 10-Q, represented long-term debt in excess of 10% of the total assets of the Company as of Sept. 30, 2008. The Company hereby agrees to furnish to the SEC, upon request, a copy of any such instrument.
  - 10.1 General Release of Thomas A. Renyi, dated July 22, 2008.
  - 10.2 General Release of Bruce Van Saun, dated Aug. 29, 2008.
  - 10.3 Letter Agreement entered into by The Bank of New York Mellon Corporation and Thomas P. Gibbons, dated July 10, 2008, accepted July 16, 2008.
  - 10.4 Letter Agreement entered into by The Bank of New York Mellon Corporation and Bruce Van Saun, dated Aug. 22, 2008, accepted Aug. 25, 2008.
  - 10.5 Description regarding amendments entered into on July 7, 2008 by The Bank of New York Mellon Corporation and Thomas P. Gibbons.
  - 12.1 Ratio of Earnings to Fixed Charges.
  - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURE**

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

THE BANK OF NEW YORK MELLON CORPORATION  
(Registrant)

Date: November 7, 2008

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

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**Index to Exhibits**

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                   | Method of Filing                                                                                                                                                                             |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1         | Amended and Restated Agreement and Plan of Merger, dated as of Dec. 3, 2006, as amended and restated as of Feb. 23, 2007, and as further amended and restated as of March 30, 2007, between The Bank of New York Company, Inc., Mellon Financial Corporation and The Bank of New York Mellon Corporation ( The Company ).                                                     | Previously filed as Exhibit 2.1 to<br><br>The Company's Current Report on Form 8-K (File Nos. 000-52710 and 001-06152) as filed with the Commission on July 2, 2007.                         |
| 3.1         | Restated Certificate of Incorporation of The Bank of New York Mellon Corporation.                                                                                                                                                                                                                                                                                             | Previously filed as Exhibit 3.1 to<br><br>The Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 2, 2007.                                        |
| 3.2         | Amended and Restated By-Laws of The Bank of New York Mellon Corporation, as amended and restated on July 10, 2007.                                                                                                                                                                                                                                                            | Previously filed as Exhibit 3.2 to<br><br>The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, (File No. 000-52710) as filed with the Commission on Aug. 8, 2007. |
| 4.1         | None of the instruments defining the rights of holders of long-term debt of the Company, the creation of which was disclosed in this Quarterly Report on Form 10-Q, represented long-term debt in excess of 10% of the total assets of the Company as of Sept. 30, 2008. The Company hereby agrees to furnish to the Commission, upon request, a copy of any such instrument. |                                                                                                                                                                                              |
| 10.1        | General Release of Thomas A. Renyi, dated July 22, 2008.                                                                                                                                                                                                                                                                                                                      | Filed herewith.                                                                                                                                                                              |
| 10.2        | General Release of Bruce Van Saun, dated Aug. 29, 2008.                                                                                                                                                                                                                                                                                                                       | Filed herewith.                                                                                                                                                                              |
| 10.3        | Letter Agreement entered into by The Bank of New York Mellon Corporation and Thomas P. Gibbons, dated July 10, 2008, accepted July 16, 2008.                                                                                                                                                                                                                                  | Filed herewith.                                                                                                                                                                              |
| 10.4        | Letter Agreement entered into by The Bank of New York Mellon Corporation and Bruce Van Saun, dated Aug. 22, 2008, accepted Aug. 25, 2008.                                                                                                                                                                                                                                     | Filed herewith.                                                                                                                                                                              |
| 10.5        | Description regarding amendments entered into on July 7, 2008 by The Bank of New York Mellon Corporation and Thomas P. Gibbons.                                                                                                                                                                                                                                               | Previously filed as Item 5.02 to The Company's Current Report on Form 8-K (File No. 000-52710) as filed with the Commission on July 17, 2008.                                                |
| 12.1        | Ratio of Earnings to Fixed Charges.                                                                                                                                                                                                                                                                                                                                           | Filed herewith.                                                                                                                                                                              |
| 31.1        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                           | Filed herewith.                                                                                                                                                                              |
| 31.2        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                           | Filed herewith.                                                                                                                                                                              |

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- |      |                                                                                                     |                     |
|------|-----------------------------------------------------------------------------------------------------|---------------------|
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Furnished herewith. |

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