9-208-129
REV: OCTOBER 6, 2010

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Mellon Financial and The Bank of New York

Grateful for a moment of quiet reflection, Robert Kelly sat alone in his office, high atop the 54-story Mellon Financial headquarters building in the Golden Triangle of downtown Pittsburgh. The winter Sunday had been chilly and overcast. Inside headquarters, there had been few opportunities for contemplation, as Kelly directed final preparations for a board of directors meeting that would begin later that afternoon. Now was his last chance to be alone with his thoughts before the meeting. When the board assembled, they would conduct a final review of the terms of a proposed merger between Mellon Financial and The Bank of New York. As CEO of Mellon, Kelly would present his opinion on the favorability of the terms, and the board would vote. Simultaneously, a similar meeting was being held in Manhattan at the headquarters of The Bank of New York, where Kelly's counterpart Thomas Renyi was chairman and CEO. If both boards agreed, the merger would be official, and the companies would issue a joint press release before trading began the next morning, Monday, December 4, 2006.

Kelly had joined Mellon in February 2006 from Wachovia, a large financial institution, where he had been CFO. At Wachovia he had directed the post-merger integration of Wachovia and First Union, so Kelly was familiar with the opportunities and challenges of integrating the operations of large banks. By all accounts, the Wachovia-First Union merger had been a success, and Kelly had earned a reputation as an outstanding manager of complex merger integration processes. Still, no one knew better than Kelly that mergers were far from easy, particularly when they required the amalgamation of the vital, complicated, often incompatible computing systems of large financial institutions. The Wachovia-First Union merger had gone well because of patience, planning, and careful management of investors' expectations for the merger. Kelly felt that the combination of Mellon and The Bank of New York had much potential, but capturing the value of the synergies was risky and would take considerable work. If the boards agreed to the merger, it would be a long, hard road.

Kelly also had lingering concerns about the ability to achieve a true merger. Everything was coming together—the terms of the transaction, the leadership team, the proposed structure of the new company and its board, and agreement on where the organization would be headquartered. Kelly was determined that employees and shareholders on both sides, as well as clients, recognize the combination as a true merger with the potential for significant benefits to all parties. The leadership team was another key issue. He was confident they had the right players, and initial chemistry among the team members was strong, but for the merger to succeed, they needed to quickly come together.

Professors Carliss Y. Baldwin and Ryan Taliaferro prepared this case with the assistance of Anne Suslavich (MBA 2008). HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Another concern was the city of Pittsburgh. For over a century, Mellon had been a cornerstone of Pittsburgh, and the company had deep ties to civic and charity organizations. The new company would be headquartered in New York City. Did Kelly have obligations to Pittsburgh, in addition to his shareholders? Finally, there was the matter of culture and the competitive relationship between the two banks. In 1998, Mellon had rebuffed a merger offer from The Bank of New York, which had then appealed to Mellon's shareholders in a quasi-hostile bid. Had the situation changed sufficiently in eight years to warrant revisiting this transaction, and did executives on either side—many of whom were involved in the earlier action—harbor resentment?

Doubtless, the timing of a merger in late 2006 was promising. Due to regulatory changes and business economics, the financial services industry was consolidating rapidly. For years, management at both companies had analyzed combinations with other asset servicers. Kelly realized that if Mellon and The Bank of New York did not agree to this merger, likely both companies would be looking for other partners in the near future. Or, one of the greatest fears of both companies could be realized: they could wake up to discover two of their large competitors combined, leaving both at a competitive disadvantage.

Industry Background

General

After years of heavy restrictions, regulators began loosening constraints on U.S. financial services firms in the 1990s. Restrictions had been of two major types: (1) restrictions on the geographic size and scope of bank branch networks, and (2) limitations on the financial services that firms could offer. To relax the first constraint, Congress passed the Interstate Banking Efficiency Act, which eliminated lingering restrictions on banks' ownership of branches in more than one U.S. state. To relax the second, in 1999 Congress passed the Gramm-Leach-Bliley Financial Services Modernization Act, which repealed the Glass-Steagall Act of 1933. Glass-Steagall's repeal meant that financial services firms no longer had to confine their activities to commercial banking, investment banking, or insurance, but could be in all three businesses.

Naturally, these reforms added momentum to the merger activity that had been building in previous years. There were many reasons why bigger and more diversified financial services firms were economical. For example, back-office processing, monitoring, and control activities have a large fixed-cost component, which can be spread over higher volumes, thereby lowering unit costs for larger firms. As another example, firms that jointly offered investment, insurance, and banking products could offer tailored packages designed to meet specific customer needs.

By the beginning of the twenty-first century, there had been considerable consolidation in the banking industry. (**Exhibit 1** displays a list of the largest U.S. depository institutions in 2006. **Exhibit 2** displays financial results for a subset of these large banks.)

The banking industry includes many different businesses serving many different customers. The Bank of New York and Mellon Financial each had specialized expertise in industry subsegments, particularly in securities servicing and asset management. Through a series of strategic acquisitions and divestitures spanning many decades, by 2006 The Bank of New York had become a market leader in securities servicing, and Mellon Financial had become a market leader in asset management.

Securities servicing providers offer specialized capabilities to investors, financial intermediaries, and issuers of debt or equity instruments. Key areas include asset servicing, issuer services, and clearing and execution services.

An asset servicing provider, known as a custodian, is responsible for the monitoring, management, and safekeeping of its clients' financial assets, such as stocks and bonds. Typical clients include mutual funds, hedge funds, pension funds, endowments, and other asset managers. As providers of back-office support, custodians monitor the market value of the securities they hold in trust; collect dividend and interest payments on behalf of their clients; alert investors to news such as stock splits, bond calls, and conversion deadlines related to their securities; and maintain records of the client's portfolio of securities for portfolio accounting, administration, and tax purposes. In addition, many custodians assist with such middle-office functions as compliance and risk monitoring, and clearance and settlement. (See **Exhibit 3** for an overview of the asset manager value chain.)

When its clients trade securities, the custodian acts as an intermediary between the buyer and seller, verifying the accuracy of trade information and then ensuring settlement of the trade, in particular the delivery of the securities from the seller in exchange for payment from the buyer. In recent years, custodians had also begun providing support for front-office functions through offerings of software for portfolio analysis, investment analysis, and risk management, and by providing market data. As **Exhibit 4** shows, the world's major custodians in 2006 included a very small group of large-scale providers. A merger between any of the larger players would arguably pose a substantial threat to the other market leaders. The Bank of New York was second, just behind JPMorgan Chase and just ahead of State Street. Mellon ranked fifth at the top of the second tier. Combining The Bank of New York and Mellon Financial would create the biggest asset custodian in the world.

Issuer services providers offer critical services to issuers of debt or equity instruments, and critical support to help make the issue a success. There are three key activities:

1. Corporate trust, whereby the company acts as paying agent and trustee, playing the role of the middleman between issuers and the investors and looking out for the best interests of bondholders. The Bank of New York held leading market share across nearly all major debt types, while Mellon was not a player in this space.

2. Depositary receipts (DRs), which are internationally recognized securities representing whole market securities. DRs can be used by corporations to sell new shares and raise capital, or to tap into new investor pools, outside their home markets. At the time of the transaction, The Bank of New York had nearly two-thirds market share of all global depositary receipt programs. This was another area new to Mellon.

3. Shareowner services, which helps companies administer their shareowner, equity compensation plans and direct investment programs. The Bank of New York and Mellon each had leadership positions in the United States.

In the area of clearing and execution, much of The Bank of New York's business was focused on providing support for introducing broker-dealers[1] and registered investment advisors, including securities processing, trading, and operational support. Through its Pershing subsidiary, the company was the largest clearing firm in the United States, as measured by introducing broker relationships.

[1] An introducing broker-dealer maintains client relationships with investors but delegates the execution, clearing, and settlement of trades to another financial institution.

Asset managers select and oversee investments on others' behalf. They offer mutual funds to the public, and also manage the assets of pension funds, endowments, and wealthy individuals. As compensation, they receive a fraction (typically 0.5%–1%) of assets under management, plus in some cases a performance incentive. (**Exhibit 5** lists the world's major asset managers in 2005.) UBS was first in terms of assets under management, Fidelity fourth, and State Street fifth. Mellon was ranked twelfth. For many years, The Bank of New York avoided asset management for strategic reasons (concerns that it would be competing with asset managers who were clients of its securities servicing business), but by the end of 2006 it was seeking to build up its capabilities in this area.

Technically classified as depository institutions, The Bank of New York and Mellon Financial together in mid-2006 held about $100 billion of deposits, mostly from institutional and high-net-worth clients. (See **Exhibits 6 and 7** for the two bank's financial statements.) However, together the banks had loans outstanding of only about $50 billion. Most depository institutions lend nearly 100% of their deposits; the banks' low loan-to-deposit ratios reflected the fact that lending was not an important part of either bank's strategy. (The banks invested their surplus deposits in investment securities and short-term liquid investments.) Nevertheless, both The Bank of New York and Mellon Financial still were subject to regulation that required them to maintain their book equity at a specified level relative to their book assets.

Exhibit 8 shows the stock returns history of the two banks for 2001–2006 relative to S&P's index of bank stocks (BIX).

The Bank of New York

In the American Colonies, the accepted legal tender, gold and silver coin or "specie," was in extremely short supply. For years it was common practice for merchants who had temporary cash surpluses to lend to those who had temporary needs. Near the close of the eighteenth century, new banks institutionalized this practice. Merchants deposited specie in their banks, and, whenever the need arose, subscribers could request short-term loans from this stockpile. Often the loans would appear in the form of notes, which the holder could convert into specie on demand, and these notes circulated as money, partly relieving the shortage in the colonial economy. One of the first banks founded to address these needs was The Bank of New York, founded in 1784 by Alexander Hamilton. A few years later the bank's stock became the first traded corporate issue on the New York Stock Exchange.

In the next century, The Bank of New York played an important role in the provision of trade credit, particularly to merchants moving goods through the ports of New York, and in the development of infrastructure, notably the Erie Canal and the New York subway. In the twentieth century, the bank grew through a series of acquisitions, mainly of other banks and trust companies. By the end of the twentieth century the bank provided an array of financial services, including retail and commercial banking, asset management, and custodial services. It was one of the world's most important custodians, with $12.2 trillion of assets under custody in 2006 (see **Exhibit 4**). (**Exhibit 6** reports financial results for The Bank of New York for 2001–2005.)

When he became CEO in 1997, Thomas Renyi saw the potential of developing even more scale in the custody business, also known as asset servicing. He recounted:

> A roll-up strategy of consolidating what historically has been a fragmented industry had great financial benefits. This was very much a scale business. The Bank of New York needed to be, wanted to be, and should be a catalyst in the ultimate consolidation of the principal businesses we were in, essentially securities servicing.

In 2006 The Bank of New York agreed to a swap with JPMorgan Chase in which Morgan received The Bank of New York's retail and small-business banking unit and The Bank of New York received Morgan's corporate trust unit. The swap took The Bank of New York out of the retail banking business, although it continued to offer loans and other banking services to its corporate clients and high-net-worth individuals. Of the swap transaction, Renyi said, "It allowed us to swap our retail for their global corporate trust business and have a virtually nondilutive transaction with minimal tax leakage. As such, we were able to create the final transformative engine of the company to make it a much purer play."

Bank of New York executives believed that this transaction would be favorably viewed by the market and ultimately lead to a higher P-E multiple. According to Vice Chairman Bruce Van Saun:

> In 2006 the markets started to improve, and our direct peers, meaning State Street, Northern Trust, and Mellon, had all started to benefit. We were still carrying around the retail bank, which was a cash cow but a slow grower. The guys who had the purest kind of business models were putting up better growth numbers [and] the market was rewarding that.
>
> The retail bank transaction was announced in June, and closed on the weekend of October 1st in '06. The hope was that, as we dealt with the things that were overhangs on our multiple, the faster growth rate in our core businesses would be more evident . . . and the market would start to reward us for our purer business mix, closing that multiple gap. So that's where we were as we headed into fall. We felt we had executed some very complex, creative transactions, and that the market would have a little bit of skepticism about execution risk, but ultimately we would be rewarded [with a higher multiple].

As of late 2006, The Bank of New York had two principal business segments: (1) Institutional Services; and (2) Private Bank and BNY Asset Management. Institutional Services, the largest division, included the firm's three securities-servicing businesses, as well as the treasury services it provided in support of its core activities. Private Bank and BNY Asset Management provided financial planning, asset management, advisory, trust, and banking services to high-net-worth individuals and institutional clients. For reporting purposes, smaller units, such as the bank's leasing operations, were grouped under the corporate oversight function. (The first panel of **Exhibit 9** reports financial results for the major business segments of The Bank of New York as of the end of 2005.) In September 2006 the Retail and Middle Market division was transferred to JPMorgan Chase in the swap transaction described above.

Mellon Financial

In 1869, Thomas Mellon, together with sons Andrew and Richard, founded T. Mellon & Sons' Bank in Pittsburgh, Pennsylvania. Their business developed quickly and played a prominent role in the financing of many new businesses important in the Industrial Revolution. For example, Mellon funded Henry Clay Frick's steel manufacturing business, which, through a series of mergers, eventually became U. S. Steel. Also among the new ventures that Mellon financed were Standard Oil (now ExxonMobil), Heinz, and Alcoa.

In the first half of the twentieth century, Mellon made a number of acquisitions that expanded the bank's retail and business banking networks. But as bank regulation eased, Mellon began to emphasize asset management and servicing. It bought a number of well-known asset management companies, including the Dreyfus family of mutual funds in 1994. In 2001, it sold all of its retail banking businesses to Citizens Financial, thus increasing its focus on asset management and servicing.

By 2005, Mellon was one of the world's most important asset managers, with over $800 billion under management (see **Exhibit 5**). It also ranked high in asset servicing, though it was in the second tier of this market (see **Exhibit 4**). **Exhibit 7** reports financial results for Mellon Financial for 2001–2005.

As of late 2006, Mellon divided its businesses into four principal units: (1) Mellon Asset Management; (2) Private Wealth Management; (3) Asset Servicing; and (4) Payment Solutions and Investor Services. (Additional businesses were grouped in a fifth unit for reporting purposes.) The second panel of **Exhibit 9** reports financial results for Mellon's major business segments. Its largest segment, Mellon Asset Management, offered investment products under a number of brands, including Dreyfus, to both institutional and retail clients. The Private Wealth Management unit provided investment management and financial planning services to foundations and high-net-worth individuals. The Asset Servicing unit provided trust and custody services to institutional clients. The Payment Solutions and Investor Services segment provided transaction processing and record-keeping to institutional clients.

In February 2006, Kelly joined Mellon as CEO. Reflecting on the firm's outlook in early 2006, Michael Bryson, Mellon's CFO and head of corporate development, remembered, "The company had a lot of momentum. I think the board's question was, 'Are we big enough to survive?' We were a major player, but we weren't the leader, so how do you get there? I certainly expected that Bob [Kelly] would do the strategic deal. I just think it was a question of how soon."

Deal History

2006 was not the first time that Mellon and The Bank of New York had considered a merger. In 1995 and 1996, the CEOs of the two firms had discussed a combination on friendly terms. Though both sides agreed on the financial rationale, certain details could not be resolved, and discussions broke off before any news of the talks emerged in the press. In 1997 when Renyi became CEO, he contacted his counterpart at Mellon and suggested that the two firms should again consider a combination. While Mellon's board agreed to further conversations, their requirements for such a deal were, to Renyi, too disadvantageous to The Bank of New York. Frustrated, Renyi withdrew his offer, and in 1998 in a less friendly approach, he contacted Mellon's shareholders directly. Pennsylvania law provides unusually strong takeover defenses, and Mellon was able to resist The Bank of New York's overtures. During this episode, the management teams and boards of the two firms developed a significant distrust of each other.

By 2006, both firms had changed considerably. Both had disposed of their retail banking operations, with Mellon refocusing primarily on asset management and The Bank of New York refocusing primarily on securities servicing. Both also had successful track records of complementing organic growth with strategic acquisitions, The Bank of New York primarily on the securities servicing side and Mellon in asset management. In February, Kelly came from Wachovia to lead Mellon as CEO. Noting the change in management at Mellon and the simplification that had taken place in both firms' businesses, executives at The Bank of New York thought the time might be ripe for a fresh approach. John Roy, head of corporate development of The Bank of New York, recalled, "Tom [Renyi] had reached out to Bob [Kelly] when he came to the job, and he asked for a briefing paper on Mellon to describe what they looked like, what businesses they had, and where the potential fits might be." Gerald Hassell, president of The Bank of New York, recalled a contemporaneous shift in the Bank's view of how big a role it could play in asset management:

> We had said to ourselves that we didn't want to be a huge player, because we didn't want to compete with the clients of our asset servicing business. We came to realize that the world

had changed, and that you could be in competition and still be a service provider. Other custody banks were doing so.

At a retreat in June, Bank of New York board members and executives considered the important strategic questions facing the firm. Based on a presentation by Bruce Van Saun, the board authorized management to approach Mellon to discuss a friendly merger.

In September, Van Saun presented a more detailed merger model to his colleagues at The Bank of New York. The model suggested that a merger would be beneficial to the shareholders of both banks. On September 26, Renyi called Kelly to propose the merger. Kelly was receptive and recommended to his board that Mellon pursue further discussions with The Bank of New York. Kelly also decided to postpone other potential significant acquisitions that Mellon was considering in order to focus on the potential merger.

In the succeeding weeks, the two CEOs met twice in New York and reviewed basic details of the transaction. They agreed that the transaction would be a merger of equals, that the new company would be headquartered in New York, and that Kelly would be the CEO. The Mellon board steadfastly refused to consider any transaction in which Kelly would not become CEO. As it happened, Renyi had disclosed to his board that past summer that he was considering retirement within the next several years and that they should begin an orderly process of searching for a successor.

However, the Mellon board made other demands about exchange ratios, board seats in the new company, management representation, and obligations to the Pittsburgh region that were more difficult for The Bank of New York to accept. On October 12, the board of The Bank of New York decided that the merger would not be beneficial on the terms demanded by Mellon, and they called off further discussions.

Renyi called Kelly to relay the news, and, taken aback, Kelly suggested that Renyi and Hassell visit Pittsburgh the following week to meet with the Mellon board. The executives accepted the invitation, and the visit went smoothly. The two companies signed confidentiality agreements and their respective teams began due diligence work.

On Saturday morning, November 4, Bruce Van Saun and Donald Monks of The Bank of New York met with Steve Elliott and Michael Bryson of Mellon in a suite at the Plaza Athénée in New York. Elliott was senior vice chairman of Mellon and was responsible for its asset servicing businesses as well as finance and technology. Monks was vice chairman of The Bank of New York and head of global operations and technology. Van Saun tore two pieces of paper from his pad, taped them together, and turned on his calculator. For the next 10 hours the four executives went through the banks' operations item by item looking for synergies. Van Saun recalled:

> So we're sitting in this conference room in this hotel, and I said, "We can't cheat. We know the number that we need to get to, but I'm not taking subtotals." We just went through line by line for the better part of a day. And then I called for a drum roll and I added it up, and we had reached our target of $700 million in annual cost savings. So the numbers looked like they worked. [**Exhibit 10** displays a copy of the left panel of Van Saun's two-page hand-drawn spreadsheet.]

After the Thanksgiving holiday, heads of the business units and shared services of each of the firms met their counterparts at the airport hotel in Pittsburgh for three intense days of due diligence. Each pair of managers was given their business's hypothesized cost savings number from Van Saun's spreadsheet, and they were asked to consider how reasonable the assumptions were. Izzy Dawood, head of mergers and acquisitions at Mellon, organized the work with a set of templates focused on cost savings (see **Exhibit 11**) and merger integration expenses (see **Exhibit 12**). In addition to reporting the bottom-up detail that supported any cost savings assumptions, the managers were asked to report the top three benefits of the merger for their business units and the top three potential pitfalls. Completed templates were returned to Dawood for analysis. According to Dawood:

> On Thursday night we got all the reports back, and on Friday, Bryson, Bruce [Van Saun], Todd [Gibbons, The Bank of New York's chief financial officer], and I spent six hours in a hotel conference room going through the reports. To maintain confidentiality and meet the deadlines, I actually went to Staples and bought a printer, so we could put together some reports, and both sides could look at the same numbers.

After making the adjustments to the original spreadsheet to bring it into accord with the business managers' analyses, the principals felt confident in their ability to achieve the cost synergy target.

Merger Rationale

The management teams decided that they would be realistic, and if the boards approved the merger, they would announce a projected annual savings of $700 million, or 8.5% of combined expenses, to the market. The companies were determined to not rush into achieving these savings right away, opting instead for a thoughtful, disciplined process that would take three years for the savings to be realized fully but would help ensure that the integration was done right. (**Exhibit 13** displays the annual cost savings that the companies would announce to the market, pending board approval of the merger.)

The cost savings would not come for free, however, but as a result of much hard work in integrating the businesses and information systems of the two institutions. It was estimated that merger integration costs totaling $1.3 billion would be incurred over the three years (see **Exhibit 13**).

Cost savings were not the only rationale for the merger. The firms' businesses were complementary, and the management teams thought it likely that they would find opportunities to generate revenue by cross-selling services across their two client bases. In particular, they thought the new firm would be able to distribute Mellon's asset management services though The Bank of New York's distribution channels and client relationships.

One area of immediate gain was in the management of what Mellon Vice Chairman Ron O'Hanley calls "frictional cash," which arises in the normal course of securities servicing. Mike Bryson explained:

> Any kind of asset servicing, corporate trust processing activity generates what can be called frictional cash. This can include escrow balances, cash from recent dividends or interest payments, or new contributions waiting to be invested. That cash belongs to the clients, but something needs to be done with it. . . . [The securities servicer] can take it on the balance sheet as a deposit, put it out in some kind of a short-term fund, or take it to a more enhanced short-term fund. Ultimately over time that cash management might even migrate into other forms of asset management. . . . On the basis of doing that well, you get your foot in the door.

In addition to cross-selling, the executives believed that new product offerings could be designed to give the combined enterprise new sources of growth. Steve Elliott described the opportunities for global expansion:

> [The] major growth opportunities are not in North America, they are in Europe and Asia. But you need the infrastructure that comes from North America, the cash engine for investing, as well as what you do operationally because you're using the same processes, globally. And you are able to get much more volume across a single platform so you get the scale advantage.

Elliott also explained how integrated operations could lead to a better experience for clients:

> [T]hink in terms of the continuum of investing and managing assets. An asset manager is basically at the front end of the decision process leading into trading and execution, leading into the custodial side. At the back end is all the informational content for the underlying owner of the assets. . . . And there are handoffs along the way. . . . We're very much oriented internally to seamless handoffs. In contrast if a client has different vendors [for different parts of the continuum] then the handoffs are—I don't want to call them clumsy, but they're more susceptible to inefficiencies.

Finally, as the two management teams became better acquainted during the due diligence work, they realized that, despite their past rivalry, the cultures of the two companies were highly compatible. At the same time, their businesses were complementary. Van Saun summarized:

> There was a cultural fit, and there was enough overlap in the businesses to get synergies on the expense side, but enough complementarity of the businesses to get revenue synergies also. It wasn't just going to be a "slam it together and take the costs out" type of transaction. Mellon has strong asset management. We were trying to build asset management. There's a logical cross-sell of asset management to asset servicing clients. Also, Mellon was focused on the pension and endowment side of the asset servicing market, while The Bank of New York was focused more on financial institutions and mutual funds. We viewed the complementarity of the client bases as an opportunity as well.

In spite of strong feelings about potential revenue synergies and cross-selling potential, to be conservative, the institutions did not attempt to quantify the additional revenue that the combined firm might realize. This practice of validating the merger's economics based on cost savings alone was consistent with the Wachovia-First Union merger that Kelly had overseen several years before. It also gave the new firm some financial slack in case it experienced customer attrition or other difficulties during the integration process.

The possibility of client loss as a result of service disruptions during the integration was a particular risk in financial company mergers. Both management teams hoped these losses could be minimized, though it was standard practice in the industry to assume that a post-merger institution could lose up to 10% of its pre-merger client base. In fact, The Bank of New York and Mellon recently had been the beneficiaries of such client attrition during State Street's acquisition of Deutsche Bank's custody business. (On the other hand, Wachovia and First Union had surprised outside observers by losing an immaterial fraction of customers during their merger.) There were other risks as well. For example, the new firm might not realize all the forecast cost savings; the challenge of integrating two large, diversified financial companies could pose a distraction to managers and divert attention from other important tasks of growing the company; and there was the possibility of regulatory interference and delays. Then there was the issue of the risks to the asset management business, particularly at Mellon, where asset and wealth management constituted two-thirds of the company's pretax income. Clients and consultants who assist in the selection of asset management providers generally have a strong bias against M&A (merger and acquisition) activity because of the potential distraction to investment teams and staff turnover. Any disruption posed significant risk to shareholders.

Merger Details

Kelly's and Renyi's boards were meeting to review a complicated proposal with many details. However, the salient points of the merger agreement could be summarized quickly. First, the new firm would be called The Bank of New York Mellon Corporation and, subject to approval by the New York Stock Exchange, would trade under the symbol BK, previously the ticker for The Bank of New York. Mellon's NYSE ticker MEL would be retired. The new firm would be headquartered in New York City, but several important operations, including the cash management and stock transfer businesses, would be managed in Pittsburgh. In addition, Pittsburgh would be a center of excellence for major back-office support functions, such as human resources, accounting, facilities management, and technology and operations.

The leadership structure had been agreed upon and the top executives of the new company identified, dividing management between the current executives of the two institutions (see **Exhibit 14**). Renyi, currently chairman and CEO of The Bank of New York, would assume the role of executive chairman. Kelly, chairman, president, and CEO of Mellon, would become the new firm's CEO. After 18 months, Renyi would retire and Kelly would take on the additional role of chairman of the new firm. Hassell would be the president of the new firm. Finally, the board of the new firm would consist of 18 members, 10 appointed by the current board of The Bank of New York, and 8 appointed by the current board of Mellon Financial. After 18 months, the board's size would shrink to 16, with nine seats to legacy Bank of New York and seven seats to legacy Mellon.

One of the thorniest negotiating points pertained to the city of Pittsburgh and the obligation that the Mellon board felt to the community. Mellon's board members accepted the financial rationale for the merger and the benefits to Mellon's shareholders, but they also did not want to see the city lose the headquarters of an important and historical company. Kelly and Renyi finally won the Mellon board's approval by showing that the merger would lead to a net increase in employment in Pittsburgh. The increase was due to the cost advantage that Pittsburgh had relative to New York City. Signalling the top management team's commitment to a continued and growing presence in the city, Pittsburgh was designated a "global growth center" of the new company.

Also, it was agreed that before the closing of the transaction, the new company would donate $20 million to the newly formed Mellon Charitable Foundation, which, with the approximately $60 million from the preexisting Mellon Financial Corporation Foundation, would have $80 million in assets from which to give grants to communities in Southwestern Pennsylvania. Also under the terms of the merger agreement, the new firm would continue to donate an additional $1.2 million annually to the Pittsburgh community and would create an advisory board for community development. Members of this board would act as liaison between the top management of the new firm and business and civic leaders in Pennsylvania as well as serve as trustees of the new Foundation.

Another sticking point that emerged late in the negotiations concerned the change-in-control provisions for Mellon employees. The merger would result in a change in control for Mellon, and this event would trigger change-in-control clauses in all equity agreements, which impacted the majority of its 17,000 employees. All Mellon stock option and stock awards held by employees, including the top executives, would vest immediately upon a change in control. In addition, Mellon's top executives had individual change-in-control agreements that provided additional lucrative cash and benefits in the event of changes to certain terms and conditions of their employment. The combination of these change-in-control provisions left Mellon without economic incentives to induce top executives to stay with the new company. Lisa Peters, head of Human Resources for Mellon, reviewed the top executive agreements and recommended the creation of a "team bonus" and "just-for-you award" of additional equity to be paid conditional on the individual executives waiving their right to immediate equity vesting as well as agreeing to the other provisions contained in their change-in-control agreements. She said, "What we needed to do was to deliver our top team to the new company. If we were unable to do so the deal would not meet expectations." (Team bonus awards were also awarded to the top executives of The Bank of New York, even though the transaction did not trigger a change in control.)

Finally, to protect against third parties making bids for either company before the merger was completed, on the signing of the deal, each firm would issue options to the other. The options would allow either firm to buy as much as a 19.9% stake in the other at a favorable price, if a merger with or acquisition by a third party were to occur.

Financial Forecasts

In the merger discussions, one of the most important negotiation points was the stock-for-stock exchange ratios that would convert old Mellon and Bank of New York shares into shares of the new company. The exchange ratios determined the fractional ownership of the new firm that Mellon's shareholders and The Bank of New York's shareholders would receive. Thus, the exchange ratios implicitly assigned a valuation to each institution, which could be compared to its market value before the announcement of the deal. (On Friday, December 1, 2006, Mellon shares closed at $40.05 and Bank of New York shares at $35.48. There were approximately 412 million Mellon shares and 752 million Bank of New York shares outstanding. **Exhibit 15** shows daily stock prices for the two institutions from October 1, 2005 through the previous Friday, December 1, 2006.)

The boards needed to approve two stock conversion ratios, one for each firm. The merger documents stated that Mellon's shares would be converted one-for-one into shares of the new firm, while The Bank of New York's shareholders would convert each of their shares into 0.9434 shares of the new firm. These exchange ratios were based on the average stock prices for the two companies over the period October 1, 2005 to September 30, 2006 (see **Exhibit 15**). With these ratios, former Bank of New York shareholders would own about 63% of the new firm, and former Mellon shareholders would own about 37% of the new firm.

The ratios determined the total number of shares issued by the new company, hence, future earnings per share. Given a forecast of net income and the exchange ratios, it was possible to predict the earnings per "legacy" share of Mellon and The Bank of New York, respectively. By tracking earnings per "legacy" share, one could see whether the deal was accretive or dilutive to each of the two shareholder groups.[2] (**Exhibit 16** makes such a forecast for two possible exchange ratios.)

Although they were no longer on the table as alternatives, other exchange ratios had been considered. For example, the alternative scenario in **Exhibit 16** shows the impact of converting The Bank of New York's shares at the ratio of closing stock prices on December 1, 2006 (40.05/35.48 = 0.8859), while holding Mellon's exchange ratio fixed at one-for-one. Decreasing The Bank of New York's exchange ratio would make the deal less accretive (or even dilutive) for The Bank of New York and more accretive for Mellon.

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[2] A deal is said to be "accretive" for Firm X if it results in an increase of earnings-per-share to the shareholders of Firm X. It is "dilutive" if it results in a decrease of earnings-per-share. In this comparison, earnings-per-share are adjusted for the exchange ratio. Thus, if Firm X exchanges one share of stock for .5 shares of the new company, its pre-deal EPS is compared to the post-deal EPS of .5 shares of the new company.

Kelly's Decision

As Kelly looked out on the city of Pittsburgh, his mind returned to the exchange ratio he had negotiated. The proposed Bank of New York exchange ratio, 1-for-0.9434, would keep earnings per share roughly steady for the legacy Bank of New York shareholders in the first year after the merger. While this exchange ratio would make the deal highly accretive to Mellon shareholders, it undervalued Mellon according to its current market price. In earlier discussions Mellon had proposed ratios that reflected its market price, but these offers had been rejected. Bank of New York directors were firm that any agreement must be accretive to (raise) earnings per share for legacy Bank of New York shareholders, or at least not dilute (lower) their earnings per share.

Kelly felt that the modest accounting dilution that Bank of New York shareholders would realize under the proposed exchange ratio pushed The Bank of New York to its limit, but still he wondered if the ratio was fair to Mellon shareholders. Further, it was technically The Bank of New York that was buying Mellon, and generally, acquired companies received an acquisition premium for their shares, not a discount. Kelly was familiar with many previous acquisitions (such as those displayed in **Exhibit 17**) in which the acquired company had been paid a premium. On the other hand, in "mergers of equals" (such as those displayed in **Exhibit 18**), acquisition premia were normally lower, often close to zero. Should he have demanded more from The Bank of New York? Would The Bank of New York have balked if he had?

Particularly troublesome to Kelly was the possibility that investors would look at the terms of the merger and Kelly's role as CEO and soon Chairman of the new company, and conclude that Kelly had sold out his Mellon shareholders to gain an important role at a bigger firm. For his entire career Kelly had been a careful steward of resources, always looking out for the best interests of his shareholders, and it was difficult to contemplate accusations to the contrary. Kelly knew that Mellon shareholders would share in the new firm's synergies, and that pre-announcement market values did not include these benefits. But if the market did not believe in the synergies his team had calculated, then Mellon's share price would fall on announcement of the deal. How would he respond?

As he watched the white headlights and red taillights cruise by on the city's nearby highways, Kelly also wondered about the implications for Pittsburgh. If both boards approved the merger, how would the city respond to the announcement in the morning? Would its citizens and politicians applaud the new jobs the deal would bring, or would they see the deal as a move designed to diminish Pittsburgh and its heritage?

As Kelly collected his thoughts, he wondered if he should recommend that his board approve the merger and the discount. Was this the best he could do for his shareholders? For Pittsburgh?

Exhibit 1 Largest Diversified U.S. Depository Institutions, December 31, 2005

Rank	Company	Total Assets ($ millions)
1	Citigroup[a]	1,494,037
2	Bank of America	1,291,803
3	JPMorgan Chase[a]	1,198,942
4	Wachovia	520,755
5	Wells Fargo	481,741
6	Washington Mutual	343,573
7	U.S. Bankcorp	209,465
8	Suntrust Banks	179,713
9	National City	142,397
10	BB&T	109,170
11	Fifth Third	105,225
12	The Bank of New York[a]	102,074
13	State Street[a]	97,968
14	KeyBank (Keycorp)	93,126
15	PNC Financial	91,954
16	Capital One	88,701
17	Regions Financial	84,786
18	Sovereign	63,679
19	M & T Bank	55,146
20	Northern Trust[a]	53,414
21	Comerica	53,013
22	Union Bank of California	49,416
23	Marshall & Isley	46,213
24	Zions	42,780
25	Mellon Financial[a]	38,678
26	Commerce	38,466

Source: CRSP, Standard & Poor's Compustat, company records.

[a]Significant income from asset servicing.

Exhibit 2 Financial Highlights for U.S. Diversified Depository Institutions, Fiscal Year Ended December 31, 2005 (in millions, except per-share data)

	Asset servicing banks								
	The Bank of New York	Mellon	State Street	Northern Trust	Citigroup	Bank of America	JPMorgan Chase	Wachovia	Wells Fargo
Net Interest Income[a]	1,909	485	907	661	39,345	30,737	19,831	13,681	18,504
Fee and Other Income	4,890	4,027	4,550	1,954	44,255	26,438	34,702	12,219	14,431
Provision for Loan Losses	15	19	0	3	7,929	4,014	3,483	249	2,383
Salaries & Benefits	2,532	1,764	2,231	965	25,772	15,054	18,255	9,671	10,455
Other Operating Expenses	1,934	1,638	1,810	770	15,507	9,428	12,202	3,733	5,873
Income Taxes	796	433	487	303	9,078	8,015	3,732	3,033	3,877
Net Income	1,571	912	838	584	19,738	16,447	8,470	6,643	7,671
Total Loans	40,726	6,573	6,482	19,966	583,503	573,791	384,948	259,015	310,837
Allowance for Loan Losses	(411)	(63)	(18)	(125)	(9,782)	(8,045)	(7,090)	(2,724)	(3,871)
Investments	44,504	21,326	80,588	27,147	622,728	551,254	616,797	186,551	104,281
Other Assets	17,255	10,842	10,916	6,426	297,588	174,803	204,287	77,913	70,494
Total Assets	102,074	38,678	97,968	53,414	1,494,037	1,291,803	1,198,942	520,755	481,741
Deposits	64,424	26,074	59,646	38,520	592,595	634,670	554,991	324,894	314,450
Short-Term Borrowings	1,694	1,146	23,369	3,355	314,656	368,112	166,590	70,779	35,016
Long Term Debt	7,817	4,404	2,608	5,513	178,324	89,660	103,563	40,145	68,544
Other Liabilities[b]	18,263	2,852	5,978	2,426	295,925	97,828	266,587	34,476	23,071
Total Shareholders Equity	9,876	4,202	6,367	3,601	111,412	101,262	107,072	47,561	40,335
Total Liabilities & Equity	102,074	38,678	97,968	53,414	1,494,037	1,291,803	1,198,942	520,755	481,741
Shares Outstanding (FY–end)	771	415	334	218	4,980	4,000	3,487	1,557	1,678
Dividends per Share (FY 2005)	0.87	0.78	0.72	0.86	1.76	1.90	1.36	1.94	2.00
Earnings per Share	2.04	2.20	2.51	2.68	3.96	4.11	2.43	4.27	4.57
Shares Outstanding (9/30/06)	763	411	331	218	4,944	4,526	3,471	1,589	3,367
ROE[c]	17%	22%	14%	18%	18%	17%	8%	14%	20%
Efficiency[d]	66%	76%	74%	66%	55%	46%	60%	52%	53%
Common stock (9/30/06)									
- Closing Price	35.26	39.10	62.40	58.43	49.67	53.57	46.96	55.80	36.18
- 52-wk Average[e]	33.40	35.51	60.13	54.77	48.16	47.87	42.11	54.60	33.03
- Forward P/E[f]	14	16	17	17	11	11	12	11	13
- Market Value of Equity	26,908	16,087	20,654	12,738	245,566	242,451	163,018	88,694	121,826
- 60-month Beta	1.41	1.27	1.16	1.23	1.19	0.52	1.59	0.77	0.38

Source: CRSP, Compustat, I/B/E/S, Worldscope.

[a]In this exhibit, net interest income is reported before provisions for loan losses.

[b]Other liabilities include non-equity reserves, minority interest in subsidiaries, and preferred stock.

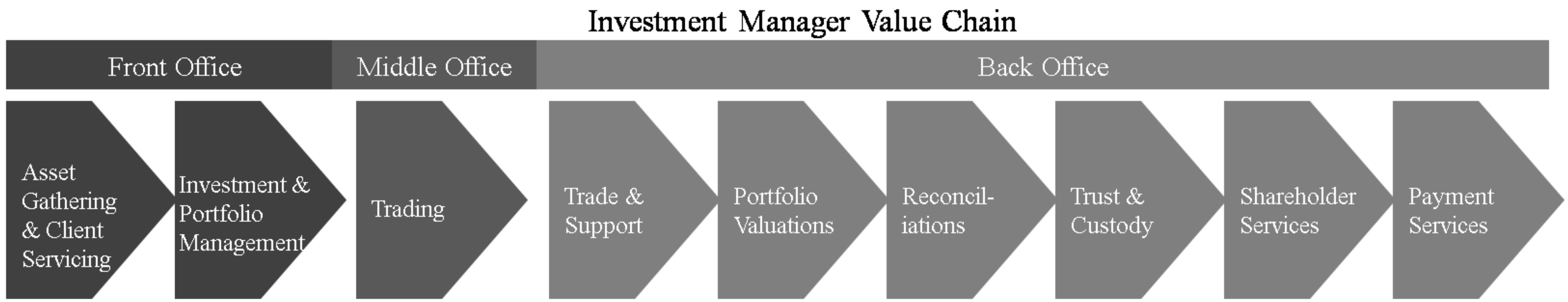
[c]ROE is measured as 2005 net income divided by book equity of common stock at 2004 fiscal year end.

[d]A bank's "efficiency ratio" is its ratio of operating expenses to the total of gross interest income, less gross interest expense and provision for loan losses, and non-interest income.

[e]The Wells Fargo 52-week average share price is adjusted for a stock split in August of 2006.

[f]Forward P/E is the share price on 9/30/06 divided by the September 2006 consensus earnings-per-share forecast for fiscal year ending 2007.

Exhibit 3 Asset Manager Value Chain



Source: Mellon Financial Investor Conference 2006.

Exhibit 4 Largest Asset Custodians, Worldwide, September 2006

Rank	Manager	Assets under Custody ($ trillions)
1	JPMorgan Chase	12.9
2	The Bank of New York	12.2
3	State Street	11.3
4	Citigroup	9.6
5	Mellon Financial	4.4
6	BNP Paribas	4.3
7	Northern Trust	3.3
8	HSBC	3.0
9	UBS	2.8
10	U.S. Bancorp	2.3

Source: Lehman Brothers.

Exhibit 5 Largest Asset Managers, Worldwide, December 2005

Rank	Manager	Assets under Management (AUM) ($ billions)
1	UBS	2,016
2	Barclays Global Investors	1,513
3	Allianz Group	1,493
4	Fidelity	1,442
5	State Street	1,441
6	AXA Group	1,260
7	Capital Group	1,166
8	Credit Suisse	1,128
9	Deutsche Bank	1,027
10	BlackRock	991
11	Vanguard	958
12	Mellon Financial	856

Source: Lehman Brothers.

Exhibit 6 The Bank of New York Financial Information—Balance Sheets for Fiscal Years Ended December 31 ($ millions)

	2001	2002	2003	2004	2005
Assets					
Cash and Due from Banks	3,222	4,748	3,843	3,886	3,515
Trading Account Securities	8,270	7,309	5,406	4,627	5,930
Mortgage Backed Securities	6,761	13,110	18,719	19,395	22,809
Federal Funds	4,795	1,385	4,829	5,708	2,425
Other Securities	6,101	5,190	4,908	5,241	4,696
Other Investments	6,619	5,104	8,286	8,192	8,644
Total Investments	32,546	32,098	42,148	43,163	44,504
Loans, Gross	35,747	31,339	35,283	35,781	40,726
Reserves for Loan Losses	(616)	(831)	(668)	(591)	(411)
Property Plant & Equipment, Net	992	975	1,079	1,097	1,060
Total Other Assets	9,134	9,235	10,712	11,193	12,680
Total Assets	81,025	77,564	92,397	94,529	102,074
Liabilities					
Deposits	55,711	55,387	56,406	58,721	64,424
Short-Term Debt[a]	4,119	1,971	1,873	1,738	1,694
Long-Term Debt	4,976	4,730	6,121	6,121	7,817
Other Liabilities[b]	9,902	8,792	19,569	18,659	18,263
Total Liabilities	74,708	70,880	83,969	85,239	92,198
Total Common Equity	6,317	6,684	8,428	9,290	9,876
Total Liabilities & Equity	81,025	77,564	92,397	94,529	102,074

Source: Worldscope.

[a]Short-term debt includes current portion of long-term debt.

[b]Other liabilities include non-equity reserves, minority interest in subsidiaries, and preferred stock.

Exhibit 6 (continued) The Bank of New York Financial Information—Income Statements for Fiscal Years Ended December 31 ($ millions, except per-share data)

	2001	2002	2003	2004	2005
Interest Income	3,620	2,613	2,330	2,453	3,356
Interest Expense	(1,939)	(948)	(721)	(808)	(1,447)
Provision for Loan Losses	(375)	(685)	(155)	(8)	(15)
Net Interest Income	1,306	980	1,454	1,637	1,894
Foreign Exchange Income	206	165	193	255	274
Gains/Losses on Sale of Securities	154	(118)	35	59	97
Trading Account Income	132	69	134	109	117
Trust Income	N/A	N/A	N/A	N/A	N/A
Commission & Fees	2,701	2,893	3,485	4,008	3,932
Other Operating Income	267	98	126	147	470
Total Fee and Other Income	3,460	3,107	3,973	4,578	4,890
Salaries and Benefits	(1,588)	(1,562)	(2,002)	(2,314)	(2,532)
Other Operating Expenses	(1,200)	(1,170)	(1,522)	(1,760)	(1,934)
Net Operating Income	1,978	1,355	1,903	2,141	2,318
Extraordinary and Other Income, Net	43	(19)	(174)	15	5
Income before Tax	2,021	1,336	1,729	2,156	2,323
Income Taxes	(715)	(470)	(605)	(759)	(796)
Equity in Earnings	37	36	33	43	44
Net Income	1,343	902	1,157	1,440	1,571
Earnings per Share	1.84	1.24	1.49	1.85	2.04
Shares Outstanding (FY end)	729	726	775	778	771
Dividends per Share (full year)	0.72	0.76	0.76	0.79	0.87
ROE[a]	22%	14%	17%	17%	17%
Efficiency Ratio[b]	58%	67%	65%	66%	66%
Prov. for Loss/Net Int. Inc. (before Loss)	22%	41%	10%	0%	1%
Fee and Other Income/Total Income	73%	76%	73%	74%	72%

Source: Standard & Poor's Compustat, Worldscope.

[a]ROE is measured as 2005 net income divided by book equity of common stock at 2004 fiscal year end.

[b]A bank's "efficiency ratio" is its ratio of operating expenses to the total of gross interest income, less gross interest expense and provision for loan losses, and non-interest income.

Exhibit 7 Mellon Financial Information—Balance Sheets for Fiscal Years Ended December 31 ($ millions)

	2001	2002	2003	2004	2005
Assets					
Cash and Due from Banks	3,177	2,728	2,602	2,775	2,373
Trading Account Securities	638	792	266	262	269
Mortgage Backed Securities	8,438	10,364	9,757	11,053	12,936
Federal Funds	926	2,229	703	1,850	1,626
Other Securities	1,125	1,217	1,230	2,534	4,476
Other Investments	4,119	1,931	2,991	2,823	2,019
Total Investments	15,246	16,533	14,947	18,522	21,326
Loans, Gross	8,540	8,438	7,467	6,754	6,573
Reserves for Loan Losses	(126)	(127)	(103)	(98)	(63)
Property Plant & Equipment, Net	631	704	668	688	656
Total Other Assets	6,892	7,955	8,402	8,474	7,813
Total Assets	34,360	36,231	33,983	37,115	38,678
Liabilities					
Deposits	20,715	22,657	20,843	23,591	26,074
Short-Term Debt[a]	1,395	2,185	1,300	1,888	1,146
Long-Term Debt	5,187	4,925	5,050	4,651	4,404
Other Liabilities[b]	3,581	3,069	3,088	2,883	2,852
Total Liabilities	30,878	32,836	30,281	33,013	34,476
Total Common Equity	3,482	3,395	3,702	4,102	4,202
Total Liabilities & Equity	34,360	36,231	33,983	37,115	38,678

Source: Worldscope.

[a]Short-term debt includes current portion of long-term debt.

[b]Other liabilities include non-equity reserves, minority interest in subsidiaries, and preferred stock.

Exhibit 7 (continued) Mellon Financial Information—Income Statements for Fiscal Years Ended December 31 ($ millions, except per-share data)

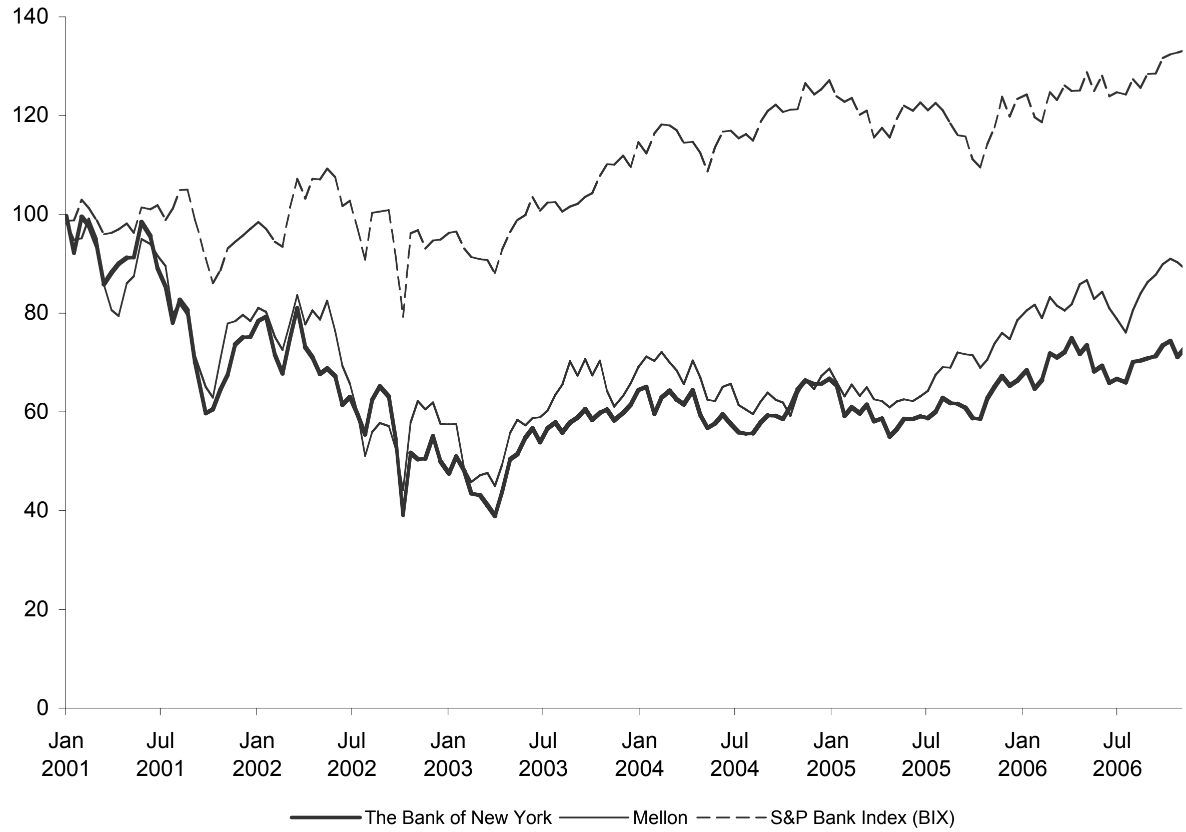
	2001	2002	2003	2004	2005
Interest Income	1,397	1,056	917	862	1,159
Interest Expense	(823)	(446)	(348)	(404)	(674)
Provision for Loan Losses	4	(172)	(7)	11	(19)
Net Interest Income	578	438	562	469	466
Foreign Exchange Income	194	146	147	185	202
Gains/Losses on Sale of Securities	N/A	59	62	8	1
Trading Account Income	N/A	N/A	N/A	N/A	N/A
Trust Income	1,091	1,574	1,484	1,497	778
Commission & Fees	1,711	1,883	1,863	2,063	2,848
Other Operating Income	42	24	83	151	198
Total Fee and Other Income	3,038	3,686	3,639	3,904	4,027
Salaries and Benefits	(1,528)	(1,865)	(1,848)	(1,963)	(1,764)
Other Operating Expenses	(1,033)	(1,243)	(1,287)	(1,356)	(1,638)
Net Operating Income	1,055	1,016	1,066	1,054	1,091
Extraordinary and Other Income, Net	--	5	(72)	36	182
Income before Tax	1,055	1,021	994	1,090	1,273
Income Taxes	(239)	(326)	(311)	(357)	(433)
Equity in Earnings	(380)	(28)	(6)	67	72
Net Income	436	667	677	800	912
Earnings per Share	0.98	1.55	1.59	1.89	2.20
Shares Outstanding (FY end)	447	431	427	423	415
Dividends per Share (full year)	0.82	0.49	0.57	0.7	0.78
ROE[a]	11%	19%	20%	22%	22%
Efficiency Ratio[b]	71%	75%	75%	76%	76%
Prov. for Loss/Net Int. Inc. (before Loss)	-1%	28%	1%	-2%	4%
Fee and Other Income/Total Income	84%	89%	87%	89%	90%

Source: Standard & Poor's Compustat, Worldscope.

[a]ROE is measured as 2005 net income divided by book equity of common stock at 2004 fiscal year end.

[b]A bank's "efficiency ratio" is its ratio of operating expenses to the total of gross interest income, less gross interest expense and provision for loan losses, and non-interest income.

Exhibit 8 Cumulative Stock Returns for The Bank of New York and Mellon Financial Relative to S&P's Index of Bank Stocks (BIX), January 2001–November 2006 (December 31, 2000 = 100)



Source: Thomson Datastream, Global Financial Data.

Exhibit 9 Business Unit Performance for Mellon Financial and The Bank of New York, Fiscal Year Ending 2005 and Change from 2004 ($ millions and percent change)

The Bank of New York[a]

	Asset Management		Asset Servicing		Retail		Other		Total[d]	
	Private Bank and Asset Management		Institutional Services		Retail and Middle Market		Corporate and Other			
	2005	%Δ	2005	%Δ	2005	%Δ	2005	%Δ	2005	%Δ
Revenue[b]	519	9	5,368	10	895	3	83	67	6,865	9
Expense[c]	320	10	3,503	10	540	5	135	2	4,498	9
Income before taxes	199	7	1,865	10	355	0	–52	–34	2,367	10
Average assets	2,205	3	75,682	5	13,778	–9	9,770	0	101,435	2
Average AUM	105,000	3	48,000	40	N/A	N/A	N/A	N/A	155,000	13
Average AUC	N/A	N/A	10,900,000	12	N/A	N/A	N/A	N/A	10,900,000	12

Mellon Financial[a]

	Asset Management				Asset Servicing				Other		Total[d]	
	Mellon Asset Management		Private Wealth Management		Asset Servicing		Payment Solutions and Investor Services		Other			
	2005	%Δ	2005	%Δ	2005	%Δ	2005	%Δ	2005	%Δ	2005	%Δ
Revenue[b]	1,894	16	572	7	1,065	22	692	–2	617	16	4,840	13
Expense[c]	1.389	14	333	5	843	21	527	4	344	11	3,436	13
Income before taxes	505	22	239	9	222	24	165	–16	273	25	1,404	14
Average assets	2,000	0	7,000	13	8,500	18	7,300	3	12,400	14	37,304	10
Average AUM	625,000	7	86	10	103,000	39	N/A	N/A	N/A	N/A	781,000	11
Average AUC	3,000	–63	N/A	N/A	3,874,000	21	N/A	N/A	N/A	N/A	3,908,000	21

Source: Company annual reports.

[a]Results are based on internal management accounting and do not correspond to exhibits that report results based on GAAP.

[b]Where applicable, revenue is interest revenue after interest expense, i.e., net revenue.

[c]Expenses include total operating expenses and credit quality expenses, but exclude taxes.

[d]Totals of asset measures do not equal business unit sums.

Exhibit 10 Cost Synergy Spreadsheet

Synergies - Costs

Asset Mgmt	(MM's) Total $	x %	$ Target	Target Heads	Principal Location	Memo All. Impact
BNY Personal Asset Mgmt	23	20	4.6	22	NYC Midtown	4.4
BNY Inst. ⊥ ⊥	10	80	8.0	32	NYC Midtown	5.0
BNY Sales & Admin	23	80	18.4	38	NYC Midtown	—
BNY Product Mgmt	6	80	4.8	14	NYC Midtown	—
	62	58	35.8	106	⊥	9.4
Allocated Bonus			4.0			18.8
			39.8			
Wealth Mgmt	83	20	16.6	85	NYC Midtown	6.0

Asset Servicing	Total $	x %	$ Target	Target Heads	Principal Location	Memo
Domestic (PM/DIS/MF/OS/AAIS/SOPS) BK	831	15%	124.7	could be 875 (800)	NYC, Everett	Tech 100 All other 30
Alternative Services	75	20%	15	75	Somerset NJ	—
Eagle/Netik (sell Netik)				[58]		
FX & Derivatives (Global Mkts)	122	20%	24.4	38	NY, London, Pitt	10
Sec Lending	48	30%	14.4	75	NYC, Pitt	10
Int'l Tr. Agency	144	15%	21.6	250(?)	London, Dublin, Edinburgh Manchester	—
[Int'l Custody/JV's = opportunity; need to model]						
Global Risk Services	17	100%	17	54	NYC, Wilshire	—
	1237	18%	217	1247		150

Treasury Services	Total $	x %	$ Target	Target Heads	Principal Location	Memo
Working Capital Solutions (ex Retail)	400	10%	40	400	NJ, Utica, Pitt	
Institutional Banking (CRM)	83 ~~[illegible]~~	20% ~~[illegible]~~	16.6	78	Pitt, NYC DTown	
Financial Mkts/CapMkts	99	7.5 ~~[illegible]~~%	7.4	25	Pitt, NYC DTown	—
	582	11%	64	503		—

Domestic Custody - Notes

186	339	55%	2429	140
306 ~~[illegible]~~	412 ~~[illegible]~~	61%	2956	166 ~~[illegible]~~

	Domestic I/S tech		
MEL	~~150~~	400 ⇒	Target 100
BK	250		

Int'l Funds Svcs - Net

MEL 1010		4200 staff for both Global Pymt
BK ~~[illegible]~~		
[illegible]		

Source: Company records.

Exhibit 11 Due Diligence Cost-Savings Template

Apple Water Agreed Cost Savings Summary

________________________ [LOB, Shared Service Area]

($ millions)	Apple					Water					Combined			
Base Data	Total HC	Avg.Comp/ HC	Total Comp	Other Direct Exp.	Total Expense	Total HC	Avg.Comp/ HC	Total Comp	Other Direct Exp.	Total Expense	Total HC	Total Comp	Total Other	Total Expense
Overlap														
Other														
Total														
Assumed Savings														

Agreed Savings	HC	Avg.Comp/ HC	Comp Savings	Other Direct Savings	Total Savings	HC	Avg.Comp/ HC	Comp Savings	Other Direct Savings	Total Savings	HC	Comp Savings	Other Direct Savings	Total Savings
Boston														
NYC														
Other NY														
New Jersey														
PGH														
Other US														
UK/Ire														
Other Int'l														
Totals	0	0	0	0	0	0	0	0	0	0	0	0	0	0
% of Total	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
% of overlap	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Timing of Savings		% Distribution				Actual HC/ $			
	Total	2007 (6 mos)	2008	2009	2010	2007 (6 mos)	2008	2009	2010
Headcount	0								
Comp Expense	0								
Total Expense	0								

Signoff ____________________ (Apple) ____________________ (Water)

Source: Company records.

Note: For confidentiality and security, the firms used "Apple" and "Water" to represent The Bank of New York and Mellon Financial, respectively.

Exhibit 12 Due Diligence One-Time Merger Costs Template

BUSINESS SECTOR
PROJECT CANDLE
Due Diligence 1X Expense Report ($millions)

Do Not Input Numbers in This Column (Total Amount)

inputs under Non-cash/Cash column, do not add columns or rows
input $ amounts in millions
do not input in shaded boxes

1X Expenses	WATER Total Amount	WATER Non-Cash	WATER Cash	WATER Brief Description of What 1X Dollars are Being Spent For & Tiiming	APPLE Total Amount	APPLE Non-Cash	APPLE Cash	APPLE Brief Description of What 1X Dollars are Being Spent For & Tiiming
General (to be prepared by sponsoring business unit(s)):								
Contract Salary/Temporary Employees (non-IT conversion)	-				-			
Conversion Related Expense	-				-			
Professional Services	-				-			
Contract cancellations/continuance with no benefit	-				-			
Training	-				-			
Intangible Write offs	-				-			
Capitalized Software Writeoff	-				-			
Description	-				-			
Description	-				-			
Description	-				-			
Description	-				-			
Description	-				-			
Description	-				-			
TOTAL	-	-	-		-	-	-	

RELOCATION DETAIL

Input # of People per year

		2007	2008	2009	2010	Total	Brief Description
Origin	-						
Destination	-					-	
Origin	-						
Destination	-					-	
Origin	-						
Destination	-					-	
Origin	-						
Destination	-					-	
Origin	-						
Destination	-					-	

Source: Company records.

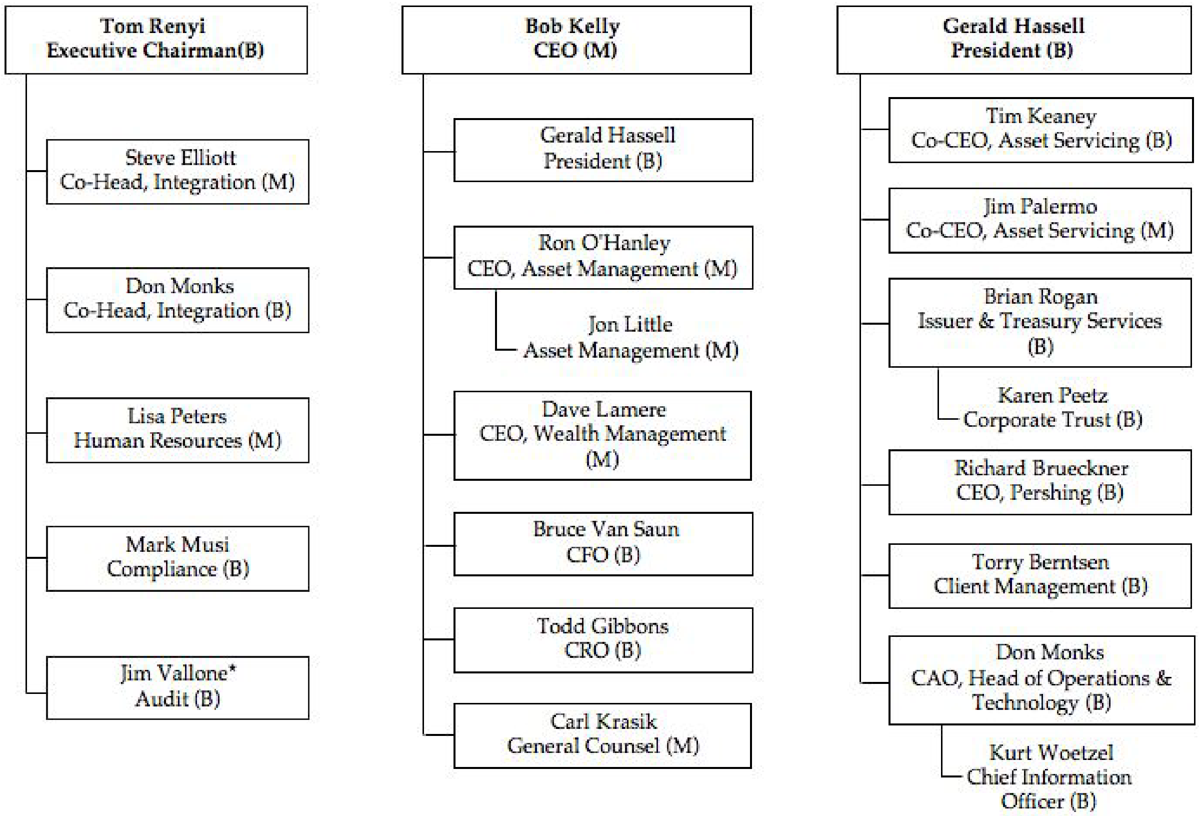
Exhibit 13 Phase-in of Projected Annual Cost Savings from Merger and Realization of One-Time Merger-Related Charges

	2007 (half year)	2008	2009	2010
Annual cost savings realized ($ millions)	105	350	595	700
Percent of potential annual cost savings	15%	50%	85%	100%
One-time charges ($ millions)[a]	692	337	61	0

Source: The Bank of New York SEC filing (S-4), internal company reports.

[a]Excludes a reserve of $210 million; three-year total including reserve is $1.3 billion.

Exhibit 14 Planned Organizational Chart for Combined Company



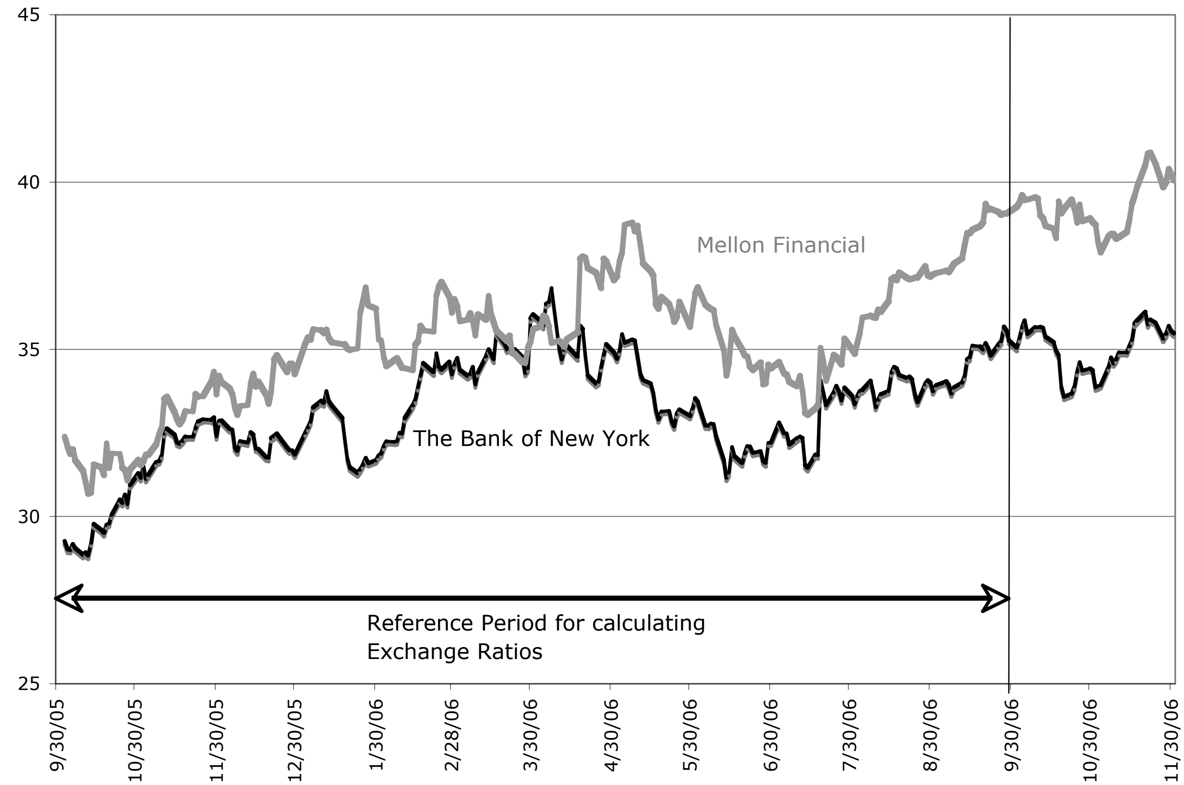
Source: Company records.

Notes: (B) indicates that the individual was from The Bank of New York; (M) from Mellon Financial.

Tom Renyi was to retire as executive chairman and from the board of directors 18 months after the close, at which time Bob Kelly would succeed him as chairman of the board. Steve Elliott would resign from the board in conjunction with Tom Renyi's retirement.

*Direct reporting line to Audit Committee of the board.

Exhibit 15 Daily Stock Prices for Mellon Financial and The Bank of New York, October 1, 2005 – December 1, 2006



Source: Thomson Datastream, Global Financial Data.

Exhibit 16 Historical and Pro Forma Quarterly "Core" Earnings per Share for Two Exchange Rate Assumptions (Core EPS is before one-time charges and is reported in $ per share; exchange ratios are in units of merged company shares per share of legacy company)

	Before Merger						After Merger				
	2006				2007		2007				
	Q1 A	Q2 A	Q3 A	Q4 E	Q1 E	Q2 E	Q3 E	Q4 E	2008 E	2009 E	2010 E
Actuals and forecasts, no merger											
Bank of New York shareholders	0.55	0.59	0.56	0.55	0.57	0.61	0.59	0.64	2.59	2.88	3.20
Mellon Financial shareholders	0.49	0.55	0.53	0.56	0.58	0.61	0.59	0.65	2.68	2.97	3.30
BK exchange ratio = 1:0.9434											
MEL exchange ratio = 1:1											
without cost synergies											
Bank of New York Shareholders	0.55	0.59	0.56	0.55	0.57	0.61	0.58	0.63	2.57	2.85	3.17
Mellon Financial Shareholders	0.49	0.55	0.53	0.56	0.58	0.61	0.61	0.67	2.72	3.02	3.36
with cost synergies											
Bank of New York Shareholders	0.55	0.59	0.56	0.55	0.57	0.61	0.61	0.66	2.75	3.16	3.53
Mellon Financial Shareholders	0.49	0.55	0.53	0.56	0.58	0.61	0.64	0.70	2.91	3.35	3.75
BK exchange ratio = 1:0.8859											
MEL exchange ratio = 1:1											
without cost synergies											
Bank of New York Shareholders	0.55	0.59	0.56	0.55	0.57	0.61	0.56	0.62	2.51	2.79	3.09
Mellon Financial Shareholders	0.49	0.55	0.53	0.56	0.58	0.61	0.64	0.69	2.83	3.14	3.49
with cost synergies											
Bank of New York Shareholders	0.55	0.59	0.56	0.55	0.57	0.61	0.59	0.64	2.69	3.09	3.45
Mellon Financial Shareholders	0.49	0.55	0.53	0.56	0.58	0.61	0.67	0.72	3.03	3.49	3.90

Source: IBES consensus estimates as of November 16, 2006; CRSP; casewriters' estimates.

Note: On Friday, December 1, 2006, the price of Bank of New York shares closed at $35.48, and the price of Mellon Financial shares closed at $40.05.

This exhibit assumes that The Bank of New York and Mellon have and maintain, respectively, 751.8 million and 411.9 million shares outstanding.

Exhibit 17 Large (>$1B) Mergers and Acquisitions in Banking Industry, January 2001 – September 2006

Announced	Effective	Acquirer	Target	Value of Transaction ($ million)	Acquisition Premium	Consideration Structure
Apr 2001	September 2001	First Union Corp	Wachovia	13,132	7%	Shares
Jul 2001	December 2001	Citizens Financial Group	Mellon Financial—Retail Banking	2,100	N/A	Cash
Sep 2002	April 2003	M&T Bank	AllFirst Financial	2,880	N/A	Hybrid (31% cash)
Oct 2003	April 2004	Bank of America	FleetBoston	49,261	43%	Shares
Jan 2004	July 2004	JPMorgan Chase & Co	Bank One	58,761	15%	Shares
May 2004	October 2004	SunTrust Banks Inc, Atlanta	National Commerce Financial	7,025	22%	Hybrid (28% cash)
Jun 2004	November 2004	Wachovia Corp, Charlotte	SouthTrust	14,156	20%	Shares
Jun 2005	December 2005	Bank of the West	Commercial Federal	1,340	34%	Cash
Jun 2005	January 2006	Bank of America	MBNA Corp	35,810	31%	Hybrid (15% cash)
Jul 2005	December 2005	Zions	Amegy Bancorp	1,690	4%	Hybrid (35% cash)
Jul 2006	January 2007	National City	Fidelity Bankshares	1,045	12%	Hybrid (51% cash)

Source: SDC, company records.

Exhibit 18 Comparable "Mergers-of-Equals"

Merging Banks	Announcement Date	Relative Market Values Prior to Announcement	Percentage Ownership Post-Announcement	Merged Company Name	Management Split	Board Split	Executive Officers
KeyCorp – Society	Oct 1993	52% - 48%	52% - 48%	KeyCorp	8 - 8	50% - 50%	Chairman & CEO: KeyCorp President: Society
First Chicago – NBD	Jul 1995	51% - 49%	50% - 50%	First Chicago NBD	8 - 8	50% - 50%	Chairman: First Chicago President & CEO: NBD
Chemical – Chase	Aug 1995	59% - 41%	58% - 42%	Chase	12 - 8	57% - 43%	Chairman & CEO: Chemical President & COO: Chase
Travelers Group – Citicorp	Apr 1998	52% - 48%	50% - 50%	Citigroup	1 - 1	50% - 50%	Co-CEOs: Travelers and Citicorp
NationsBank – BankAmerica	Apr 1998	55% - 45%	55% - 45%	BankAmerica	3 - 5	53% - 47%	Chairman & CEO: NationsBank President: BankAmerica
Banc One – First Chicago NBD	Apr 1998	62% - 38%	60% - 40%	Bank One	6 - 8	50% - 50%	Chairman: First Chicago President & CEO: Banc One
Norwest – Wells Fargo	Jun 1998	49% - 51%	47% - 53%	Wells Fargo	5 - 7	50% - 50%	Chairman: Wells Fargo CEO: Norwest
First Union – Wachovia	Apr 2001	74% - 26%	73% - 27%	Wachovia	6 - 8	50% - 50%	Chairman: Wachovia President & CEO: First Union
Regions Financial – Union Planters	Jan 2004	59% - 41%	59% - 41%	Regions Financial	8 - 5	50% - 50%	Chairman & CEO: Regions CEO (June 2005) and Chairman (June 2006): Union Planters
Regions Financial – AmSouth	May 2006	62% - 38%	62% - 38%	Regions Financial	3 - 2	57% - 43%	Chairman: Regions President and CEO: AmSouth

Source: The Bank of New York SEC filing (S-4).

Exhibit 19 U.S. Interest Rates on December 1, 2006

Term	Rate (annual %)
1 month	5.24
3 month	5.04
6 month	5.11
1 year	4.95
2 year	4.64
3 year	4.54
5 year	4.48
7 year	4.48
10 year	4.49
20 year	4.69
30 year	4.58

Source: Federal Reserve Statistical Release, Selected Interest Rates, http://www.federalreserve.gov/releases/h15/data.htm, visited October 5, 2010. Table reports Treasury constant maturity rates.