BANK OF NEW YORK CO INC
Form 10-Q
November 08, 2005

# THE BANK OF NEW YORK COMPANY, INC.

Quarterly Report on Form 10-Q
For the quarterly period ended September 30, 2005

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THE BANK OF NEW YORK COMPANY, INC.
Financial Highlights
(Dollars in millions, except per share amounts)
(Unaudited)

| | September 30, 2005 | June 30, 2005 | September 30, 2004 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| **Quarter** | | | |
| Revenue (tax equivalent basis) | $ 2,126 | $ 2,077 | $ 1,747 |
| Net Income | 389 | 398 | 354 |
| Basic EPS | 0.51 | 0.52 | 0.46 |
| Diluted EPS | 0.51 | 0.52 | 0.46 |
| Cash Dividends Per Share | 0.21 | 0.20 | 0.20 |
| Return on Average Common Shareholders' Equity | 16.15% | 17.12% | 15.90% |
| Return on Average Assets | 1.53 | 1.59 | 1.45 |
| Efficiency Ratio | 65.5 | 65.7 | 65.2 |
| **Year-to-date** | | | |
| Revenue (tax equivalent basis) | $ 6,103 | $ 3,995 | $ 5,197 |
| Net Income | 1,166 | 777 | 1,089 |
| Basic EPS | 1.52 | 1.01 | 1.41 |
| Diluted EPS | 1.51 | 1.00 | 1.40 |
| Cash Dividends Per Share | 0.61 | 0.40 | 0.59 |
| Return on Average Common Shareholders' Equity | 16.59% | 16.82% | 16.73% |
| Return on Average Assets | 1.56 | 1.57 | 1.47 |
| Efficiency Ratio | 65.8 | 65.9 | 66.0 |
| Assets | $ 101,766 | $ 103,063 | $ 93,175 |
| Loans | 42,143 | 40,681 | 37,119 |
| Securities | 26,230 | 25,779 | 23,246 |
| Deposits - Domestic | 34,807 | 37,921 | 34,786 |
| - Foreign | 26,270 | 26,076 | 23,654 |
| Long-Term Debt | 7,529 | 7,586 | 6,137 |
| Common Shareholders' Equity | 9,608 | 9,471 | 9,054 |
| Common Shareholders' Equity Per Share | $ 12.48 | $ 12.29 | $ 11.66 |
| Market Value Per Share of Common Stock | 29.41 | 28.78 | 29.17 |
| Allowance for Loan Losses as a Percent of Total Loans | 1.33% | 1.38% | 1.61% |
| Allowance for Loan Losses as a Percent of Non-Margin Loans | 1.57 | 1.62 | 1.92 |
| Total Allowance for Credit Losses as a Percent of Total Loans | 1.68 | 1.75 | 2.04 |
| Total Allowance for Credit Losses as a Percent of Non-Margin Loans | 1.97 | 2.05 | 2.42 |
| Tier 1 Capital Ratio | 7.93 | 8.07 | 8.09 |
| Total Capital Ratio | 12.20 | 12.49 | 12.09 |
| Leverage Ratio | 6.59 | 6.55 | 6.38 |
| Tangible Common Equity Ratio | 5.32 | 5.26 | 5.49 |
| Employees | 23,081 | 22,993 | 23,034 |

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THE BANK OF NEW YORK COMPANY, INC.
Financial Highlights
(Dollars in millions, except per share amounts)
(Estimated)

| | September 30, 2005 | June 30, 2005 | September 30, 2004 |
|---|---|---|---|
| **Assets Under Custody (In trillions)** | | | |
| Assets Under Custody | $ 10.3 | $ 10.3 | $ 8.9 |
| Equity Securities | 31% | 35% | 33% |
| Fixed Income Securities | 69 | 65 | 67 |
| Cross-Border Assets | $ 3.1 | $ 2.9 | $ 2.5 |
| **Assets Under Management (In billions)** | | | |
| Total Assets Under Management | $ 107 | $ 105 | $ 97 |
| Equity Securities | 34% | 34% | 35% |
| Fixed Income Securities | 21 | 21 | 21 |
| Alternative Investments | 14 | 14 | 15 |
| Liquid Assets | 31 | 31 | 29 |

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## Management's Discussion and Analysis of Financial Condition and Results of Operations

### INTRODUCTION

The Bank of New York Company, Inc.'s (the "Company") actual results of future operations may differ from those estimated or anticipated in certain forward-looking statements contained herein for reasons that are discussed below and under the heading "Forward-Looking Statements and Factors That Could Affect Future Results". When used in this report, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "believe," "plan," "goal," "should," "may," "strategy," "target," and words of similar meaning are intended to identify forward-looking statements in addition to statements specifically identified as forward-looking statements.

### OVERVIEW

The Bank of New York Company, Inc. (NYSE: BK) is a global leader in providing a comprehensive array of services that enable institutions and individuals to move and manage their financial assets in more than 100 markets worldwide. The Company has a long tradition of collaborating with clients to deliver innovative solutions through its core competencies: securities servicing, treasury management, investment management, and individual and regional banking services. The Company's extensive global client base includes a broad range of leading financial institutions, corporations, government entities, endowments and foundations. Its principal subsidiary, The Bank of New York, founded in 1784, is the oldest bank in the United States and has consistently played a prominent role in the evolution of financial markets worldwide.

The Company has executed a consistent strategy over the past decade by focusing on highly scalable, fee-based securities servicing and fiduciary businesses, with top-three market share in most of its major product lines. The Company distinguishes itself competitively by offering the broadest array of products and services around the investment lifecycle. These include: advisory and asset management services to support the investment decision; extensive trade execution, clearance and settlement capabilities; custody, securities lending, accounting and administrative services for investment portfolios; and sophisticated risk and performance measurement tools for analyzing portfolios. The Company also provides services for issuers of both equity and debt securities. By providing integrated solutions for clients' needs, the Company strives to be the preferred partner in helping its clients succeed in the world's rapidly evolving financial markets.

The Company has grown both through internal reinvestment as well as execution of strategic acquisitions to expand product offerings and increase market share in its scale businesses. Internal reinvestment occurs through increased technology spending, staffing levels, marketing/branding initiatives, quality programs, and product development. The Company consistently invests in technology to improve the breadth and quality of its product offerings, and to increase economies of scale. With respect to acquisitions, the Company has acquired 96 businesses since 1995, almost exclusively in its securities servicing and fiduciary segment. The acquisition of Pershing in 2003 for $2 billion was the largest of these acquisitions.

As part of the transformation to a leading securities servicing provider, the Company has also de-emphasized or exited its slower-growth traditional banking businesses over the past decade. The Company's more significant actions include selling its credit card business in 1997 and its factoring business in 1999, and most recently, significantly reducing non-financial corporate credit exposures by 47% from December 31, 2000 to December 31, 2004.



Capital generated by these actions has been reallocated to the Company's higher-growth businesses.

The Company's business model is well positioned to benefit from a number of long-term secular trends. These include the growth of worldwide financial assets, globalization of investment activity, structural market changes, and increased outsourcing. These trends benefit the Company by driving higher levels of financial asset trading volume and other transactional activity, as well as higher asset price levels and growth in client assets, all factors by which the Company is compensated for its services. In addition, international markets offer strong growth opportunities.

THIRD QUARTER 2005 HIGHLIGHTS

The Company reported third quarter net income of $389 million and diluted earnings per share of 51 cents, compared with net income of $354 million and diluted earnings per share of 46 cents in the third quarter of 2004 and net income of $398 million and diluted earnings per share of 52 cents in the second quarter of 2005. Year-to-date net income was $1,166 million, or $1.51 of diluted earnings per share, compared to $1,089 million, or $1.40 of diluted earnings per share in 2004.

Additional highlights for the quarter include:

* Positive operating leverage over the third quarter of 2004.

* Securities servicing fees up 18% versus the year-ago quarter.
* Net interest income up 15% over the year-ago quarter.
* Foreign exchange and other trading revenues up 39% from the year-ago quarter.
* Agreed on October 16, 2005 to acquire Alcentra Group Ltd., an international asset management group.
* New marketing alliances with leading clients in key growth markets.

The Company's third quarter earnings reflect significant progress toward its key objectives of achieving positive operating leverage on an annual basis and sustaining top-line growth by expanding client relationships and winning new ones. The Company's credit performance remains excellent and its cost re-engineering efforts continue to be effective.

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CONSOLIDATED INCOME STATEMENT REVIEW

Noninterest Income

| (Dollars in millions) | 3Q05 | 2Q05 | 3Q04 | Percent Inc/(Dec) 3Q05 vs. 2Q05 | Percent Inc/(Dec) 3Q05 vs. 3Q04 | Year-to-date 2005 | Year-to-date 2004 | Percent Inc/(Dec) |
|---|---|---|---|---|---|---|---|---|
| Servicing Fees | | | | | | | | |
| Securities | $ 806 | $ 776 | $ 684 | 4% | 18% | $2,333 | $2,116 | 10% |
| Global Payment Services | 75 | 76 | 85 | (1) | (12) | 226 | 247 | (9) |
| | 881 | 852 | 769 | 3 | 15 | 2,559 | 2,363 | 8 |
| Private Client Services and Asset Management Fees | 120 | 122 | 113 | (2) | 6 | 363 | 333 | 9 |
| Service Charges and Fees | 93 | 103 | 98 | (10) | (5) | 288 | 286 | 1 |
| Foreign Exchange and Other Trading Activities | 93 | 103 | 67 | (10) | 39 | 292 | 273 | 7 |
| Securities Gains | 15 | 23 | 14 | (35) | 7 | 50 | 59 | (15) |
| Other* | 46 | 53 | 38 | (13) | 21 | 130 | 160 | (19) |
| Total Noninterest Income | $1,248 | $1,256 | $1,099 | (1) | 14 | $3,682 | $3,474 | 6 |

The increase in noninterest income versus the third quarter and year-to-date periods of 2004 reflects broadly stronger performance in securities servicing, foreign exchange and other trading, and private client services and asset management. The sequential quarter decrease primarily reflects declines in foreign exchange and other trading, service charges and fees, and securities gains.

Securities servicing fees in the third quarter of 2005 were up from the third quarter of 2004 reflecting solid growth across all business segments. On a year-to-date basis, 2005 securities servicing fees were up from 2004 due to strength in investor services and broker-dealer services. See "Business Segment Review" for additional details.

Global payment services fees were lower than the third quarter and year-to-date periods of 2004 and on a sequential quarter basis. The decline reflects customers choosing to pay with higher compensating balances, which benefits net interest income. On an invoiced services basis, total revenue was up 6% over the third quarter of 2004 and 3% sequentially.

Private client services and asset management fees for the third quarter were up from the third quarter of 2004 reflecting higher fees at Ivy Asset Management. The sequential quarter decrease reflects higher asset management fees which were more than offset by seasonally lower private client fees. For the nine months ended September 30, 2005, private client services and asset management fees increased by 9% from a year ago, reflecting continued growth at Ivy Asset Management. Total assets under management were $107 billion, up from $97 billion a year ago and $105 billion at June 30, 2005.

Service charges and fees were down from the third quarter of 2004 and from the second quarter of 2005. For the nine months of 2005, service charges and fees increased slightly from 2004. The year-over-year quarterly decrease reflects lower advisory and commitment fees offset by higher capital markets and syndication fees. The sequential quarter decrease reflects lower capital markets fees due to seasonally lower market activity.

Foreign exchange and other trading revenues were up significantly from the third quarter of 2004 and down on a sequential-quarter basis. In comparison to the third quarter of 2004, the improved results reflect significantly higher client activity in foreign exchange as well as more favorable markets in interest rate derivatives. Sequential quarter results were impacted by a decline in fixed income trading, lower retail flows at



Pershing, and a seasonal slowdown in foreign exchange activity. For the nine months ending September 30, 2005, foreign exchange and other trading revenues were up from 2004.

Securities gains in the third quarter were up compared with the third quarter of 2004 and down compared with the second quarter of 2005. The sequential-quarter decrease reflects lower gains in the Company's sponsor fund portfolio. Securities gains declined in the first nine months of 2005 versus a year ago reflecting $19 million of realized gains on four sponsor fund investments recorded in the first quarter of 2004.

Other noninterest income increased versus the third quarter of 2004 and decreased from the second quarter of 2005. The third quarter of 2005 included gains on the sale of certain Community Reinvestment Act ("CRA") investments of $12 million ($5 million after related tax considerations) and four New York Stock Exchange seats of $6 million ($4 million after-tax). On a year-to-date basis, other noninterest income included a $17 million gain on the second quarter of 2005 sale of the Company's interest in Financial Models Company, Inc. For the nine months ended September 30, 2005, other noninterest income was down from the nine months ended September 30, 2004, primarily reflecting a 2004 pre-tax gain of $48 million on the sale of a portion of the Company's investment in Wing Hang Bank Limited. See "Other Developments".

## Net Interest Income

| | Percent Inc/(Dec) | Year-to-date | Percent Inc/(Dec) |
|---|---|---|---|

| (Dollars in millions) | 3Q05 | 2Q05 | 3Q04 | 3Q05 vs. 2Q05 | 3Q05 vs. 3Q04 | 2005 | 2004 Reported | 2004 Core** | Reported | Core** |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Interest Income | $ 492 | $ 470 | $ 428 | 5% | 15% | $1,417 | $1,118 | $1,263 | 27% | 12% |
| Tax Equivalent Adjustment* | 8 | 7 | 8 | | | 21 | 20 | 20 | | |
| Net Interest Income on a Tax Equivalent Basis | $ 500 | $ 477 | $ 436 | 5 | 15 | $1,438 | $1,138 | $1,283 | 26 | 12 |
| Net Interest Rate Spread | 1.84% | 1.84% | 1.88% | | | 1.87% | 1.62% | 1.86% | | |
| Net Yield on Interest Earning Assets | 2.42 | 2.34 | 2.18 | | | 2.37 | 1.88 | 2.11 | | |

The increases in net interest income over 2004 reflect the higher value of interest-free deposits as short-term rates increased, as well as growth in earning assets. The third quarter of 2005 also includes $4 million ($3 million after-tax) related to the recognition of interest on nonaccrual loans that were sold. The increase from the prior quarter also reflects asset-sensitive interest rate positioning, continued expansion of deposit spreads, and increased liquidity generated by servicing activities. As a result of less of an ability to lag deposit repricing, the Company expects a moderation of the growth rate of net interest income in the fourth quarter of 2005.

The net interest income rate spread was 1.84% in the third quarter of 2005, compared with 1.88% in the third quarter of 2004 and 1.84% in the second quarter of 2005. The net yield on interest earning assets was 2.42% in the third quarter of 2005, compared with 2.18% in the third quarter of 2004 and 2.34% in the second quarter of 2005. The decline in spread from the third

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quarter of 2004 reflects deposits repricing faster than the Company's investment securities portfolio.

The year-to-date net interest income spread was 1.87% in 2005 compared with 1.62% in 2004, while the net yield on interest earning assets was 2.37% in 2005 and 1.88% in 2004. Excluding the impact of the SFAS 13 leasing adjustments on the leveraged lease portfolio in 2004, the year-to-date 2004 net interest rate spread was 1.86% while net yield on interest earning assets was 2.11%. The rise in the net yield from 2004 reflects the increasing value of interest-free deposits in a rising rate environment.

## Noninterest Expense and Income Taxes

| | | | | Percent Inc/(Dec) | | Year-to-date | | Percent |
|---|---|---|---|---|---|---|---|---|
| (Dollars in million) | 3Q05 | 2Q05 | 3Q04 | 3Q05 vs. 2Q05 | 3Q05 vs. 3Q04 | 2005 | 2004* | Inc/ (Dec) |
| Salaries and | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Employee Benefits | $ 644 | $ 640 | $ 564 | 1% | 14% | $1,902 | $1,708 | 11% |
| Net Occupancy | 79 | 82 | 77 | (4) | 3 | 239 | 230 | 4 |
| Furniture and Equipment | 52 | 51 | 51 | 2 | 2 | 155 | 153 | 1 |
| Clearing | 49 | 42 | 39 | 17 | 26 | 137 | 131 | 5 |
| Sub-custodian Expenses | 25 | 24 | 21 | 4 | 19 | 72 | 65 | 11 |
| Software | 54 | 55 | 52 | (2) | 4 | 162 | 151 | 7 |
| Communications | 24 | 22 | 22 | 9 | 9 | 69 | 69 | - |
| Amortization of Intangibles | 10 | 10 | 9 | - | 11 | 28 | 26 | 8 |
| Other | 198 | 197 | 164 | 1 | 21 | 571 | 492 | 16 |
| Total Noninterest Expense | $1,135 | $1,123 | $ 999 | 1 | 14 | $3,335 | $3,025 | 10 |

Noninterest expense for the third quarter of 2005 was up compared with the third quarter of 2004 and the second quarter of 2005. The increase versus the year-ago quarter principally reflects increased staffing and clearing costs associated with new business and acquisitions, as well as higher pension and option expenses, expanded occupancy costs associated with business continuity, and higher legal and consulting costs. Other expenses in the third quarter included $14 million (both pre- and after-tax) of expenses associated with an anticipated settlement of the previously disclosed Russian funds transfer matter. The sequential increase reflects higher salaries and employee benefits and clearing expenses tied to the LJR acquisition. The year 2005 is the third and final year the adoption of expensing stock options will impact year-over-year expense comparisons.

Relative to the third quarter of 2004, salaries and employee benefits expense increased, reflecting higher pension and stock option expense as well as higher staffing levels associated with growth in investor services and expansion of certain staff functions. Salaries and employee benefits expense for the third quarter increased slightly on a sequential quarter basis, reflecting the Lynch, Jones, & Ryan, Inc.("LJR") acquisition. For the first nine months of 2005, salaries and employee benefit expense also was higher, reflecting many of these same factors affecting the year-over-year quarterly comparison.

During the quarter, headcount increased by 88 people reflecting additions related to LJR and in the correspondent clearing business. The Company migrated approximately 200 positions to lower-cost locations during the quarter, keeping it on target to meet its full-year objective of 500 positions.

Occupancy expenses were down sequentially as a result of a write-off in the second quarter. On a year-to-date basis, occupancy expenses were up from 2004, primarily reflecting business continuity initiatives and higher energy

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costs. Occupancy expense in 2004 included lease termination expenses of $8 million recorded in the first quarter of 2004.

Clearing and sub-custodian expenses, which are tied to transaction volumes, were up $8 million, or 12%, sequentially on a combined basis to $74 million. On a year-to-date basis, clearing and sub-custodian expenses were $209 million on a combined basis, increased $13 million, or 7%, from a year ago. The increases reflect a higher level of business activity.

The increase in software expense versus a year ago reflects spending and development to support business growth.

Other expenses increased versus the prior-year quarter and year-to-date periods due to higher legal, advertising, and consulting costs as well as various other expenses tied to organic growth and business acquisitions.

The effective tax rate for the third quarter of 2005 was 34.7%, compared to 32.8% in the third quarter of 2004 and 33.4% in the second quarter of 2005. The effective tax rate for the nine-month period ended September 30, 2005 was 33.7%, compared with 29.5% for the nine-month period ended September 30, 2004. The increase in the year-to-date period reflects the benefit associated with the SFAS 13 leasing adjustment related to the Company's leasing portfolio in the first quarter of 2004.

The sequential quarter increase principally reflects the non-deductibility of the amount associated with the anticipated settlement referenced above and the tax impact on the sale of the CRA investments. For the fourth quarter and full year 2005, the Company expects the effective tax rate to be approximately 33.7%.

The effective tax rates in all periods reflect a reclassification related to Section 42 tax credits. See "Other Developments".

Credit Loss Provision and Net Charge-Offs

| (In millions) | 3rd Quarter 2005 | 2nd Quarter 2005 | 3rd Quarter 2004 | Year-to-Date 2005 | Year-to-Date 2004 |
|---|---|---|---|---|---|
| Provision | $ 10 | $ 5 | $ - | $ 5 | $ 22 |
| Net Charge-offs: | | | | | |
| Commercial | $ (2) | $ (2) | $ (4) | $ (7) | $ (21) |
| Foreign | (2) | (4) | (9) | (6) | (26) |
| Regional Commercial | (3) | 2 | (1) | (3) | (1) |
| Consumer | (6) | (7) | (5) | (18) | (22) |
| Total | $ (13) | $ (11) | $ (19) | $ (34) | $ (70) |

The provision was $10 million in the third quarter of 2005, compared to the third quarter of 2004 when none was taken and $5 million in the second quarter of 2005. For the first nine months of 2005, the provision was $5 million compared with $22 million in 2004. On a year-to-date basis, the lower provision in 2005 reflects the Company's improved asset quality and a continued strong credit environment.

The total allowance for credit losses was $707 million at September 30, 2005, $756 million at September 30, 2004, and $710 million at June 30, 2005. The total allowance for credit losses as a percent of non-margin loans was 1.97% at September 30, 2005, compared with 2.42% at September 30, 2004, and 2.05% at June 30, 2005.

Net charge-offs were $13 million in the third quarter of 2005 versus $19 million in the third quarter of 2004 and $11 million in the second quarter of 2005. These represent 0.12% of total loans in the most recent quarter,



compared with 0.21% in the quarter ended September 30, 2004 and 0.11% in the quarter ended June 30, 2005. For the nine months ended September 30, 2005, net charge-offs were $34 million compared to $70 million for the same period in 2004.

## BUSINESS SEGMENT REVIEW

The Company has an internal information system that produces performance data for its four business segments along product and service lines.

### Business Segment Accounting Principles

The Company's segment data has been determined on an internal management basis of accounting, rather than the generally accepted accounting principles used for consolidated financial reporting. These measurement principles are designed so that reported results of the segments will track their economic performance. Segment results are subject to restatement whenever improvements are made in the measurement principles or organizational changes are made. In 2004, the Company made several methodology changes. These include a modification to the method for allocating its pension expense to the segments; changes to the method used to allocate earnings on capital, which caused a slight reallocation from reconciling items to the individual segments; and greater allocations of corporate expenses previously included in reconciling items to the individual segments. See "Reconciling Items." Prior periods have been restated.

The measure of revenues and profit or loss by operating segment has been adjusted to present segment data on a taxable equivalent basis. The provision for credit losses allocated to each reportable segment is based on management's judgment as to average credit losses that will be incurred in the operations of the segment over a credit cycle of a period of years. Management's judgment includes the following two factors among others: historical charge-off experience and the volume, composition, and size of the credit portfolio. This method is different from that required under generally accepted accounting principles as it anticipates future losses which are not yet probable and therefore not recognizable under generally accepted accounting principles. Balance sheet assets and liabilities and their related income or expense are specifically assigned to each segment. Funds transfer-pricing methods are used to allocate a cost of funds used or credit for funds provided to all segment assets or liabilities using a matched funding concept. Support and other indirect expenses are allocated to segments based on general internal guidelines.

### Description of Business Segments

The results of individual business segments exclude unusual items such as the SFAS 13 lease adjustments and the RW Matter in 2004, which are included within reconciling amounts.

The Company reports data for the four business segments: Servicing and Fiduciary, Corporate Banking, Retail Banking, and Financial Markets.

The Servicing and Fiduciary businesses segment comprises the Company's core services, including securities servicing, global payment services, and private client services and asset management. These businesses all share certain favorable attributes: they are well-diversified and fee-based; the Company serves the role of an intermediary rather than principal, thereby limiting risk and generating more stable earnings streams; and the businesses are scalable, which result in higher margins as revenues grow. Long-term trends that should favor these businesses include the growth of financial assets worldwide, the globalization of investment activity, heightened demand for financial servicing outsourcing, and continuing structural changes in financial markets.

Securities servicing provides financial institutions, corporations and financial intermediaries with a broad array of products and customized services for every step of the investment lifecycle. The Company facilitates the movement, settlement, recordkeeping and accounting of financial assets

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around the world by delivering timely and accurate information to issuers, investors and broker-dealers. The Company groups its securities servicing businesses into four categories, each comprised of separate but related businesses. Issuer services include corporate trust, depositary receipts and stock transfer. Investor services include global fund services, global custody, securities lending, global liquidity services and outsourcing. Broker-dealer services include government securities clearance and collateral management. Execution and clearing services include in the execution area institutional agency brokerage, electronic trading, transition management services, and independent research. Through Pershing, the clearing part of the business provides clearing, execution, financing, and custody for introducing brokers-dealers. The Servicing and Fiduciary Businesses segment also includes customer-related foreign exchange trading.

In issuer services, the Company sponsors more than 1,200 American and global depositary receipt programs, a 65% market share, acting in partnership with leading companies from 60 countries. As a trustee, the Company provides diverse services for corporate, municipal, and structured issuers globally. Over 90,000 issues for more than 30,000 worldwide clients have resulted in the Company being trustee for more than $3 trillion in outstanding debt. The Company is the third largest stock transfer agent, servicing more than 16 million shareowners. Employee investment plan services has more than 118 clients with 625,000 employees in over 54 countries.

In investor services, the Company is one of the leading custodians with $10.3 trillion of assets under custody at September 30, 2005. The Company is one of the largest mutual fund custodians for U.S. funds and one of the largest providers of fund services in the world with over $1.6 trillion in total assets. The Company services 18% of the total industry assets for exchange-traded funds. The Company is a leading U.K. custodian. In securities lending, the Company is the largest lender of U.S. Treasury securities and depositary receipts with a lending pool of approximately $1.4 trillion in 27 markets around the world.

The Company's broker-dealer services business clears approximately 50% of U.S. Government securities. The Company is the leader in global clearance, clearing equity and fixed income transactions in 101 markets. With over $1 trillion in tri-party balances worldwide, the Company is the world's largest collateral management agent.

The Company's execution and clearing services business is the largest global institutional agency brokerage organization. In addition, it is one of the world's leading institutional electronic brokers for non-U.S. dollar equity execution. The Company provides execution, clearing and financial services outsourcing solutions in over 80 global markets, executing trades for more than 600 million shares and clearing more than 925,000 trades daily. The Company has 17 seats on the New York Stock Exchange. Pershing services more than 1,100 institutional and retail financial organizations and independent investment advisors who collectively represent nearly 6 million individual investors.

Global payment services facilitates the flow of funds between the Company's customers and their clients through such business lines as funds transfer, cash management and trade services. The Company is one of the largest funds transfer banks in the U.S., transferring $1.11 trillion daily via more than 130,000 wire transfers.

Private client services and asset management includes traditional banking and trust services to affluent clients and investment management services for institutional and high-net-worth clients. The Company offers a full array of wealth management services including financial and tax planning, trust and fiduciary services, fiduciary real estate management, estate planning, private banking, brokerage and investment solutions through BNY Asset Management.

The Company's strategy is to be a market leader in these servicing and fiduciary businesses and continue to build on its product and service capabilities and add new clients. The Company has completed 96 acquisitions since 1995 primarily in this segment, has made significant investments in technology to maintain its industry-leading position, and has continued the development of new products and services to meet its clients' needs.

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The Corporate Banking segment provides lending and credit-related services to large public and private financial institutions and corporations nationwide, as well as to public and private mid-size businesses in the New York metropolitan area. Special industry groups focus on industry segments such as banks, broker-dealers, insurance, media and telecommunications, energy, real estate, retailing, and government banking institutions. Through BNY Capital Markets, Inc., the Company provides a broad range of capital markets and investment banking services including syndicated loans, bond underwriting, private placements of corporate debt and equity securities, and merger, acquisition and advisory services. The Company is a leading arranger of syndicated financings with 113 transactions totaling approximately $48 billion for clients in the nine months ended September 30, 2005.

Corporate Banking coordinates delivery of all of the Company's services to customers through its global relationship managers. The two main client bases served are financial institution clients and corporate clients. The Company's strategy is to focus on those clients and industries that are major users of securities servicing and global payment services.

The Company believes that credit is an important product for many of its customers to execute their business strategies. However, the Company has continued to reduce its credit exposures in recent years by culling its loan portfolio of non-strategic exposures, focusing on increasing total relationship returns through cross-selling and limiting the size of its individual credit exposures and industry concentrations to reduce earnings volatility.

The Retail Banking segment includes branch banking and consumer and residential mortgage lending. The Company's retail franchise includes more than 620,800 customer relationships and 76,900 business relationships. The Company operates 341 branches in 23 counties in the New York tri-state region. The Company has 241 branches in New York, 92 in New Jersey and 8 in Connecticut. The New York branches are primarily suburban-based with 118 in upstate New York, 85 on Long Island and 38 in New York City. The retail network is a source of low-cost funding and provides a platform to cross-sell core services from the Servicing and Fiduciary businesses to both individuals and small businesses in the New York metropolitan area. The branches are a meaningful source of private client referrals. Small business and investment centers are set up in the largest 100 branches.

The Financial Markets segment includes non-client related trading of foreign exchange, trading of interest rate risk management products, investing and leasing activities, and treasury services to other business segments. The segment offers a comprehensive array of multi-currency hedging and yield enhancement strategies, and complements the other business segments. The Financial Markets segment centralizes interest rate risk management for the Company.

There were no major customers from whom revenues were individually material to the Company's performance.

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## Servicing and Fiduciary Businesses

| | | | | Percent Inc/(Dec) | | Year-to-date | | Percent |
|---|---|---|---|---|---|---|---|---|
| (Dollars in millions) | 3Q05 | 2Q05 | 3Q04 | 3Q05 vs. 2Q05 | 3Q05 vs. 3Q04 | 2005 | 2004 | Inc/ (Dec) |
| Net Interest Income | $ 189 | $ 178 | $ 135 | 6% | 40% | $ 535 | $ 403 | 33% |
| Provision for Credit Losses | 1 | 1 | 1 | - | - | 3 | 2 | 50 |
| Noninterest Income | 1,095 | 1,058 | 953 | 3 | 15 | 3,178 | 2,937 | 8 |
| Noninterest Expense | 884 | 872 | 770 | 1 | 15 | 2,605 | 2,340 | 11 |
| Income Before Taxes | 399 | 363 | 317 | 10 | 26 | 1,105 | 998 | 11 |
| Average Assets | $22,799 | $23,114 | $20,937 | (1) | 9 | $22,966 | $22,195 | 3 |
| Average Deposits | 37,418 | 36,624 | 35,897 | 2 | 4 | 36,710 | 36,330 | 1 |
| Nonperforming Assets | - | 1 | 3 | | | - | 3 | |
| (Dollars in billions) | | | | | | | | |
| Assets Under Custody | $10,343 | $10,298 | $ 8,906 | - | 16 | $10,343 | $ 8,906 | 16 |
| Equity Securities | 31% | 35% | 33% | | | 31% | 33% | |
| Fixed Income Securities | 69 | 65 | 67 | | | 69 | 67 | |
| Cross-border Assets | $ 3,117 | $ 2,883 | $ 2,494 | 8 | 25 | $ 3,117 | $ 2,494 | 25 |
| Assets Under Management | 107 | 105 | 97 | 2 | 10 | 107 | 97 | 10 |
| Equity Securities | 34% | 34% | 35% | | | 34% | 35% | |
| Fixed Income Securities | 21 | 21 | 21 | | | 21 | 21 | |
| Alternative Investments | 14 | 14 | 15 | | | 14 | 15 | |
| Liquid Assets | 31 | 31 | 29 | | | 31 | 29 | |
| S&P (registered trademark) 500 Index (Period End) | 1,229 | 1,191 | 1,115 | 3 | 10 | 1,229 | 1,115 | 10 |
| NASDAQ (registered trademark) Index (Period End) | 2,152 | 2,057 | 1,897 | 5 | 13 | 2,152 | 1,897 | 13 |
| Lehman Brothers Aggregate Bond (service mark) Index | 210.0 | 212.4 | 200.4 | (1) | 5 | 210.0 | 200.4 | 5 |
| MSCI (registered | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| trademark) EAFE Index | 1,618.8 | 1,473.7 | 1,318.0 | 10 | 23 | 1,618.8 | 1,318.0 | 23 |
| NYSE (registered trademark) Volume (In billions) | 98.1 | 100.4 | 84.9 | (2) | 16 | 297.9 | 271.1 | 10 |
| NASDAQ (registered trademark) Volume (In billions) | 104.9 | 112.5 | 99.6 | (7) | 5 | 338.6 | 334.2 | 1 |

The S&P 500 (registered trademark) Index was up 10% for the third quarter of 2005, with average daily price levels up 11% from the third quarter of 2004. The NASDAQ (registered trademark) Index was up 13% for the third quarter of 2005, with average daily prices up 15% compared with the third quarter of 2004. Globally, the MSCI(registered trademark) EAFE index was up 23%. The Lehman Brothers Aggregate Bond (service mark) index was up 5% for the third quarter of 2005. On a sequential quarter basis, combined NYSE and NASDAQ (registered trademark) non-program trading volumes were down approximately 3% during the third quarter of 2005. As the Company's business model is more volume- than price-sensitive, this created a drag on the Company's equity-linked businesses compared with the second quarter of 2005.

Third quarter 2005 results showed continued strength in comparison to the third quarter of 2004, reflecting solid growth across all business segments. In the third quarter of 2005, pre-tax income was $399 million, up 26% from $317 million a year ago and up 10% from $363 million in the second quarter of 2005. On a year-to-date basis, pre-tax income was $1,105 million, up 11% from $998 million in 2004.

Noninterest income for the third quarter of 2005 increased $142 million, or 15%, to $1,095 million from a year ago and $37 million, or 3%, on a sequential quarter basis. On a year-to-date basis, noninterest income was $3,178 million, up 8% compared with $2,937 million a year ago.

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## Securities Servicing Fees

| | | | | Percent Inc/(Dec) | | Year-to-date | | Percent |
|---|---|---|---|---|---|---|---|---|
| (In millions) | 3Q05 | 2Q05 | 3Q04 | 3Q05 vs. 2Q05 | 3Q05 vs. 3Q04 | 2005 | 2004 | Inc/ (Dec) |
| Execution and Clearing Services | $ 314 | $ 294 | $ 262 | 7% | 20% | $ 901 | $ 844 | 7% |
| Investor Services | 265 | 265 | 228 | - | 16 | 793 | 683 | 16 |
| Issuer Services | 170 | 159 | 141 | 7 | 21 | 468 | 433 | 8 |
| Broker-Dealer Services | 57 | 58 | 53 | (2) | 8 | 171 | 156 | 10 |
| Securities Servicing Fees | $ 806 | $ 776 | $ 684 | 4 | 18 | $2,333 | $2,116 | 10 |

Securities servicing fees were $806 million in the third quarter, an increase of $122 million, or 18%, from the third quarter of 2004 and $30 million, or 4%, from the second quarter of 2005. The year-over-year increase reflects solid growth across all business segments. The sequential increase reflects strong growth in issuer services as well as the early success of the LJR acquisition within execution and clearing. For the nine months of 2005, securities servicing fees were $2,333 million, an increase of $217 million from the nine months of 2004, reflecting strong growth in investor services and broker-dealer services.

Execution and clearing includes institutional agency brokerage, electronic trading, transition management services, independent research and through Pershing, correspondent clearing services such as clearing, execution, financing, and custody for introducing broker-dealers. The third quarter of 2005 was up from 2004 reflecting the benefits of the LJR acquisition and solid organic growth at Pershing. Fees for execution and clearing increased significantly from the second quarter of 2005, reflecting higher transition management activity. Transition activity can vary significantly from quarter to quarter and has no correlation to market volumes.

Pershing's fees were up from the third quarter of 2004 and essentially flat compared with the second quarter of 2005. The year-over-year increase reflects Pershing's continuing strategic shift to more value-added, fee-based non-transactional services as well as higher transaction-based revenue. The majority of Pershing's revenues is generated from non-transactional activities, such as asset gathering and technology services to broker-dealers, with revenues tied to both assets under administration and services provided. On a year-over-year basis, stable assets under administration and net new business drove modest increase in fees. Pershing's assets under administration were $752 billion at quarter-end, compared with $730 billion at June 30, 2005. As of September 30, 2005, margin loans increased slightly compared with the second quarter of 2005.

Investor services, which includes global fund services, global custody, securities lending, global liquidity services and outsourcing, was up significantly from the third quarter of 2004 and essentially unchanged from the second quarter of 2005. Year-over-year results reflect strong performance across all business lines. The sequential quarter was flat as a seasonal slowdown in securities lending was offset by solid results across most businesses. Global fund services was favorably impacted by new business from Europe and higher international transaction volumes. Securities lending increased significantly year-over-year and decreased sequentially. The year-over-year positive variance in securities lending reflects continued growth in new business and robust demand for Treasury collateral.

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At September 30, 2005, assets under custody was $10.3 trillion, up from $8.9 trillion at September 30, 2004 and essentially unchanged from $10.3 trillion at June 30, 2005. A substantial portion of the increase in assets under custody since 2004 was due to new business and business line growth.

Issuer services, which includes corporate trust, depositary receipts and stock transfer, showed strong growth versus the third quarter of 2004 and increased sequentially. The increase versus the year-ago quarter primarily reflects increase in trading volumes and corporate actions in depositary receipt ("DR"). In the DR business, higher revenue reflects increased corporate actions activity, such as dividends, capital raisings, and mergers & acquisitions. DR issuance also showed solid performance, reflecting the growing interest among U.S. investors in global equities. Corporate trust fees showed continued strength in international issuance and structured products In corporate trust, international issuance was seasonally slower, which was offset by strength in structured, municipal, and corporate products. The new business wins in corporate trust are driven by the Company's introduction of new products, analytic tools, and expanded capacity.

Broker-dealer services, which includes government securities clearance and collateral management, improved versus the year-ago period as a result of increased collateral management activity and higher volumes in government securities clearance. Sequential performance was marginally lower, as higher fees from collateral management were offset by lower volumes in government securities clearance. In collateral management services, the Company continues to attract new business in both the U.S. and European markets. In addition, the Company's growth has been paced by broader adoption and greater utilization of collateral management products.

Global payment services fees were lower than the third quarter and year-to-date periods of 2004 and on a sequential quarter basis. The decline reflects customers choosing to pay with higher compensating balances, which benefits net interest income. On an invoiced services basis, total revenue was up 6% over the third quarter of 2004 and 3% sequentially.

Private client services and asset management revenues continue to demonstrate solid performance with fees up 6% compared with the third quarter of 2004. The increase from the third quarter of 2004 primarily reflects higher fees at Ivy Asset Management. On a sequential quarter basis, private client services and asset management revenues were down slightly, reflecting seasonally lower private client fees partially offset by higher asset management fees.

Assets under management ("AUM") were $107 billion at September 30, 2005, up from $97 billion at September 30, 2004 and $105 billion at June 30, 2005. The sequential increase in AUM was driven by growth in money market and fixed income classes. Institutional clients represent 70% of AUM while individual clients equal 30%. AUM at September 30, 2005, are 34% invested in equities, 21% in fixed income, 14% in alternative investments and the remainder in liquid assets. Ivy's AUM was $15.3 billion at September 30, 2005, compared with $14.6 billion at September 30, 2004 and $15.3 billion at June 30, 2005. The year-over-year increase in Ivy's AUM reflects primarily net new business and stronger market performance of the assets.

In the third quarter of 2005, noninterest income attributable to foreign exchange and other trading activities was $51 million, up from $44 million in the third quarter of 2004 and down from $55 million in the second quarter of 2005. The year-over-year increase reflects higher volatility in foreign exchange and fixed income trading. The sequential quarter decrease reflects a seasonal slow down in foreign exchange activity. On a year-to-date basis, noninterest income attributable to foreign exchange and other trading activities was $156 million, down from $163 million in 2004, reflecting lower foreign exchange volatility and lower other trading activities.

Net interest income in the Servicing and Fiduciary businesses segment was $189 million for the third quarter of 2005, up 40% compared with $135 million

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in the third quarter of 2004 and $178 million in the second quarter of 2005. The significant increase from the third quarter of 2004 is primarily due to higher value of interest-free deposits related to the rise in short-term rates and customers' increased use of compensating balances to pay for services. The increase in net interest income from the second quarter of 2005 is primarily due to the expansion of deposit spreads and increased liquidity generated by servicing activities. Average assets for the quarter ended September 30, 2005 were $22.8 billion, compared with $20.9 billion in the third quarter of 2004 and $23.1 billion in the second quarter of 2005. The year-over-year increase in average assets reflects a higher level of servicing activity in 2005 compared with 2004. Average assets for the nine months ended September 30, 2005 were $23.0 billion compared with $22.2 billion in the first nine months of 2004. The third quarter of 2005 average deposits were $37.4 billion, compared with $35.9 billion in the third quarter of 2004 and $36.6 billion in the second quarter of 2005. The increases in average deposits reflects customers' increased use of compensating balances in a rising interest rate environment. Average deposits for the nine months of 2005 were $36.7 billion compared with $36.3 billion in 2004.

Net charge-offs in the Servicing and Fiduciary Businesses segment were $2 million in the third quarter of 2005, compared with $10 million in the third quarter of 2004 and $5 million in the second quarter of 2005. On a year-to-date basis, net charge-offs were $7 million compared with $15 million in 2004. Nonperforming assets were zero at September 30, 2005, compared with $3 million at September 30, 2004 and $1 million at June 30, 2005.

Noninterest expense for the third quarter of 2005 was $884 million, compared with $770 million in the third quarter of 2004 and $872 million in the second quarter of 2005. The increase in noninterest expense from the third quarter of 2004 reflects higher staffing levels associated with growth in investor services and expansion of certain staff functions as well as increased pension and stock option expense. The sequential quarter increase reflects higher staffing and incentives tied to improved revenues and higher clearing expense tied to the LJR acquisition. Noninterest expense for the nine months of 2005 was $2,605 million compared with $2,340 million for the same period in 2004 and is attributable to the same factors affecting the year-over-year quarterly increase.

## Corporate Banking

| (In millions) | 3Q05 | 2Q05 | 3Q04 | Percent Inc/(Dec) 3Q05 vs. 2Q05 | Percent Inc/(Dec) 3Q05 vs. 3Q04 | Year-to-date 2005 | Year-to-date 2004 | Percent Inc/(Dec) |
|---|---|---|---|---|---|---|---|---|
| Net Interest Income | $ 92 | $ 87 | $ 88 | 6% | 5% | $ 266 | $ 262 | 2% |
| Provision for Credit Losses | 16 | 18 | 15 | (11) | 7 | 52 | 50 | 4 |
| Noninterest Income | 84 | 91 | 71 | (8) | 18 | 256 | 217 | 18 |
| Noninterest Expense | 59 | 59 | 57 | - | 4 | 175 | 172 | 2 |
| Income Before Taxes | 101 | 101 | 87 | - | 16 | 295 | 257 | 15 |
| Average Assets | $ 17,022 | $ 17,271 | $ 17,485 | (1) | (3) | $17,274 | $17,384 | (1) |
| Average Deposits | 5,702 | 5,653 | 5,422 | 1 | 5 | 5,628 | 5,921 | (5) |
| Nonperforming Assets | 94 | 126 | 269 | (25) | (65) | 94 | 269 | (65) |
| Net Charge-offs | 4 | - | 3 | - | 33 | 9 | 24 | (63) |

The Corporate Banking segment coordinates all banking and credit-related services to customers through its global relationship managers. The two main client bases served are financial institution clients and corporate clients. The Company's strategy is to focus on those clients and industries that are major users of securities servicing and global payment services.

Over the past several years, the Company has been seeking to improve its overall risk profile by reducing its credit exposures through elimination of non-strategic exposures, cutting back large individual exposures and avoiding outsized industry concentrations. In 2002, the Company set a goal of reducing corporate credit exposure to $24 billion by December 31, 2004. This goal was accomplished in early 2004 and exposures have since declined to $22.6 billion.

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In the third quarter of 2005, pre-tax income was $101 million, up 16%, compared with $87 million in the third quarter of 2004 and flat in comparison to the $101 million in the second quarter of 2005. The improvement in year-over-year results primarily reflects higher net interest income. On a year-to-date basis, pre-tax income was $295 million, up 15% compared with $257 million in 2004 reflecting both higher noninterest income and net interest income.

The Corporate Banking segment's net interest income was $92 million in the third quarter of 2005, compared with $88 million in the third quarter of 2004 and $87 million in the second quarter of 2005. On a year-to-date basis, net interest income was $266 million, compared with $262 million for the nine months of 2004. Average assets for the quarter were $17.0 billion, compared with $17.5 billion in the third quarter of last year and $17.3 billion in the second quarter of 2005. Average assets for the nine months of 2005 were $17.3 billion compared with $17.4 billion in 2004. The sequential and year-over-year declines reflect a reduction in corporate borrowing. Average deposits in the Corporate Banking segment were $5.7 billion versus $5.4 billion in the third quarter of 2004 and $5.7 billion in the second quarter of 2005. On a year-to-date basis, average deposits were $5.6 billion compared with $5.9 billion in 2004.

The third quarter of 2005 provision for credit losses was $16 million, compared with $15 million in the third quarter of last year and $18 million in the second quarter of 2005. On a year-to-date basis, provision for credit losses was $52 million compared with $50 million in 2004. After a significant period of reduction, exposures in Corporate Banking have leveled out. Net charge-offs in the Corporate Banking segment were $4 million in the third quarter of 2005, $3 million in the third quarter of 2004, and zero in the second quarter of 2005. Net charge-offs for the nine months of 2005 were $9 million compared with $24 million in 2004. Nonperforming assets were $94 million at September 30, 2005, down from $269 million at September 30, 2004 and $126 million at June 30, 2005. The decrease in nonperforming assets from the third quarter of 2004 primarily reflects loan sales, paydowns, and charge-offs of commercial loans.

Noninterest income was $84 million in the current quarter, compared with $71 million in the third quarter of 2004 and $91 million in the second quarter of 2005. On a year-to-date basis, noninterest income was $256 million compared with $217 million in 2004. The increases reflect higher gains on asset dispositions, higher capital markets fees and higher income from Wing Hang Bank. The sequential quarter decline reflects lower syndication and other capital markets fees.

Noninterest expense in the third quarter was $59 million, compared with $57 million in the third quarter of 2004 and $59 million in the second quarter of 2005. On a year-to-date basis, noninterest expense was $175 million compared with $172 million in 2004. The year-over-year increase primarily reflects higher pension and stock options expenses.

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Retail Banking

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| (In millions) | 3Q05 | 2Q05 | 3Q04 | Percent Inc/(Dec) 3Q05 vs. 2Q05 | Percent Inc/(Dec) 3Q05 vs. 3Q04 | Year-to-date 2005 | Year-to-date 2004 | Percent Inc/ (Dec) |
|---|---|---|---|---|---|---|---|---|
| Net Interest Income | $ 136 | $ 131 | $ 125 | 4% | 9% | $ 395 | $ 366 | 8% |
| Provision for Credit Losses | 5 | 5 | 6 | - | (17) | 15 | 16 | (6) |
| Noninterest Income | 27 | 27 | 28 | - | (4) | 80 | 85 | (6) |
| Noninterest Expense | 101 | 99 | 99 | 2 | 2 | 298 | 286 | 4 |
| Income Before Taxes | 57 | 54 | 48 | 6 | 19 | 162 | 149 | 9 |
| Average Assets | $ 6,180 | $ 6,071 | $ 5,639 | 2 | 10 | $ 6,119 | $ 5,445 | 12 |
| Average Noninterest Bearing Deposits | 5,377 | 5,510 | 5,398 | (2) | - | 5,462 | 5,212 | 5 |
| Average Deposits | 14,862 | 15,125 | 15,311 | (2) | (3) | 15,000 | 15,094 | (1) |
| Nonperforming Assets | 12 | 13 | 15 | (8) | (20) | 12 | 15 | (20) |
| Net Charge-offs | 7 | 6 | 6 | 17 | 17 | 18 | 17 | 6 |
| Number of Branches | 341 | 341 | 341 | - | - | 341 | 341 | - |
| Number of ATMs | 378 | 376 | 379 | 1 | - | 378 | 379 | - |

The Retail Banking segment provides the Company with a stable source of core deposits. The segment represents an attractive distribution channel, and the Company has continued to expand the products offered through the retail branch system. The branch system is focused on the suburban Tri-State New York metropolitan area.

The Retail Banking segment continues to demonstrate good results in spite of increased competition in the New York metropolitan area. Net interest income has been strong, reflecting the benefit of a rising rate environment on the value of the segment's deposits. In the third quarter of 2005, pre-tax income was $57 million, up 19% from $48 million in the third quarter of 2004 and 6% from $54 million in the second quarter of 2005. On a year-to-date basis, pre-tax income was $162 million, up 9% from $149 million in 2004.

The Company continues to enhance the services offered through the branch system. This includes leveraging its retail client base to distribute BNY Asset Management and third-party investment products. Currently, investment products are cross-sold to over 10% of the client base. The Company is also seeking selective expansion opportunities within its current branch footprint.

Net interest income in the third quarter of 2005 was $136 million, compared with $125 million in the third quarter of 2004 and $131 million in the second quarter of 2005. Net interest income has increased over the third quarter of 2004 and on a sequential quarter basis as rates have risen, benefiting spreads. The increase in average assets since the third quarter of 2004 has also contributed to the increase in net interest income. On a year-to-date basis, net interest income was $395 million compared with $366 million in 2004 reflecting the same factor discussed above.

Noninterest income was $27 million for the quarter, compared with $28 million in the third quarter of last year and $27 million in the second quarter of 2005. On a year-to-date basis, noninterest income was $80 million compared with $85 million in 2004. The decrease in noninterest income compared to 2004 reflects lower monthly service fees partially offset by higher debit card fees.

Noninterest expense in the third quarter of 2005 was $101 million, compared with $99 million last year and $99 million in the second quarter of 2005. The increases from the third quarter of 2004 and second quarter of 2005 reflect slightly higher compensation and occupancy expense. For the nine months of 2005, noninterest expense was $298 million compared with $286 million in 2004 reflecting higher employee benefits, advertising, occupancy, and consulting costs.

Net charge-offs were $7 million in the third quarter of 2005, compared with $6 million in the third quarter of 2004 and $6 million in the second quarter of 2005. For the nine months of 2005, net charge-offs were $18 million

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compared with $17 million from a year ago. Nonperforming assets were $12 million at September 30, 2005, compared with $15 million at September 30, 2004 and $13 million at June 30, 2005.

Average deposits generated by the Retail Banking segment were $14.9 billion in the third quarter of 2005, compared with $15.3 billion in the third quarter of 2004 and $15.1 billion in the second quarter of 2005. For the nine months of 2005, average deposits were $15.0 billion compared with $15.1 billion in 2004. The decrease reflects customers seeking higher yields in a rising rate environment. Average assets in the Retail Banking sector were $6.2 billion, compared with $5.6 billion in the third quarter of 2004 and $6.1 billion in the second quarter of 2005. On a year-to-date basis, average assets were $6.1 billion, compared with $5.4 billion in 2004. The increase from 2004 in average assets is due to higher consumer loans.

Financial Markets

| (In millions) | 3Q05 | 2Q05 | 3Q04 | Percent Inc/(Dec) 3Q05 vs. 2Q05 | Percent Inc/(Dec) 3Q05 vs. 3Q04 | Year-to-date 2005 | Year-to-date 2004 | Percent Inc/(Dec) |
|---|---|---|---|---|---|---|---|---|
| Net Interest Income | $ 71 | $ 70 | $ 79 | 1% | (10)% | $ 209 | $ 237 | (12)% |
| Provision for Credit Losses | 4 | 6 | 5 | (33) | (20) | 15 | 15 | - |
| Noninterest Income | 42 | 49 | 35 | (14) | 20 | 137 | 126 | 9 |
| Noninterest Expense | 33 | 34 | 29 | (3) | 14 | 100 | 83 | 20 |
| Income Before Taxes | 76 | 79 | 80 | (4) | (5) | 231 | 265 | (13) |
| Average Assets | $50,507 | $49,741 | $49,148 | 2 | 3 | $49,547 | $49,973 | (1) |
| Average Deposits | 3,850 | 4,137 | 3,517 | (7) | 9 | 3,983 | 3,724 | 7 |
| Average Investment Securities | 25,642 | 24,719 | 22,374 | 4 | 15 | 24,642 | 22,783 | 8 |
| Net Charge-offs | - | - | - | - | - | - | 14 | (100) |

In the third quarter of 2005, pre-tax income was $76 million, compared with $80 million a year ago and $79 million in the second quarter of 2005. On a year-to-date basis, pre-tax income was $231 million, down from $265 million in 2004. The decreases over the third quarter and year-to-date 2004 are primarily due to a decline in net interest income, resulting from higher funding costs for the segment's securities portfolio.

Net interest income for the third quarter was $71 million compared with $79 million a year ago and $70 million for the second quarter of 2005. The decrease from the third quarter of 2004 reflects the rising rate environment, which increased funding costs. On a year-to-date basis, net interest income was $209 million, down 12% from $237 million in 2004. The year-over-year decreases primarily reflect the rising rate environment and on a year-to-date basis, a decline in average assets. Average third quarter 2005 assets in the Financial Markets segment, composed primarily of short-term liquid assets and investment securities, were $50.5 billion, compared with $49.1 billion in the third quarter last year and $49.7 billion on a sequential quarter basis. The increases reflect higher levels of investment securities. Average investment securities increased as the Company continues to invest in adjustable or short life classes of structured mortgage-backed securities, both of which have short durations. Average assets for the first nine months of 2005 were $49.5 billion, compared to $50.0 billion for the first nine months of 2004.

Noninterest income was $42 million in the third quarter of 2005, compared with $35 million in the third quarter of 2004 and $49 million in the second quarter of 2005. On a year-to-date basis, noninterest income was $137 million in 2005 compared with $126 million in 2004. The positive variances reflect stronger interest rate derivatives and other trading activities.

Net charge-offs were zero in the third quarter and second quarter of 2005 and in the third quarter of 2004, respectively. For the nine months of 2005, net charge-offs were zero compared with $14 million for the same period in 2004. Charge-offs in 2004 primarily related to the Company's airline exposure. Noninterest expense was $33 million in the third quarter of 2005, compared with



$29 million in last year's third quarter and $34 million in the second quarter of 2005. On a year-to-date basis, noninterest expense was $100 million for 2005 compared with $83 million for 2004. The increases over the third quarter and year-to-date 2004 are attributable to higher employee incentive compensation and technology expenses.

The consolidating schedule below shows the contribution of the Company's segments to its overall profitability.

| (Dollars in millions)<br>For the Quarter Ended<br>September 30, 2005 | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Reconciling Items | Consolidat Total |
|---|---|---|---|---|---|---|
| Net Interest Income | $ 189 | $ 92 | $ 136 | $ 71 | $ 4 | $ 4 |
| Provision for Credit Losses | 1 | 16 | 5 | 4 | (16) | |
| Noninterest Income | 1,095 | 84 | 27 | 42 | - | 1,2 |
| Noninterest Expense | 884 | 59 | 101 | 33 | 58 | 1,1 |
| Income Before Taxes | $ 399 | $ 101 | $ 57 | $ 76 | $ (38) | $ 5 |
| Contribution Percentage | 63% | 16% | 9% | 12% | | |
| Average Assets | $ 22,799 | $ 17,022 | $ 6,180 | $ 50,507 | $ 4,402 | $ 100,9 |

| For the Quarter Ended | Servicing and Fiduciary | Corporate | Retail | Financial | Reconciling | Consolidat |
|---|---|---|---|---|---|---|

| June 30, 2005 | Businesses | Banking | Banking | Markets | Items | Total |
|---|---|---|---|---|---|---|
| Net Interest Income | $ 178 | $ 87 | $ 131 | $ 70 | $ 4 | $ 4 |
| Provision for Credit Losses | 1 | 18 | 5 | 6 | (25) | |
| Noninterest Income | 1,058 | 91 | 27 | 49 | 31 | 1,2 |
| Noninterest Expense | 872 | 59 | 99 | 34 | 59 | 1,1 |
| Income Before Taxes | $ 363 | $ 101 | $ 54 | $ 79 | $ 1 | $ 5 |
| Contribution Percentage | 61% | 17% | 9% | 13% | | |
| Average Assets | $ 23,114 | $ 17,271 | $ 6,071 | $ 49,741 | $ 4,264 | $ 100,4 |

| For the Quarter Ended September 30, 2004 | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Reconciling Items | Consolidat Total |
|---|---|---|---|---|---|---|
| Net Interest Income | $ 135 | $ 88 | $ 125 | $ 79 | $ 1 | $ 4 |
| Provision for Credit Losses | 1 | 15 | 6 | 5 | (27) | |
| Noninterest Income | 953 | 71 | 28 | 35 | 12 | 1,0 |
| Noninterest Expense | 770 | 57 | 99 | 29 | 44 | 9 |
| Income Before Taxes | $ 317 | $ 87 | $ 48 | $ 80 | $ (4) | $ 5 |
| Contribution Percentage | 60% | 16% | 9% | 15% | | |
| Average Assets | $ 20,937 | $ 17,485 | $ 5,639 | $ 49,148 | $ 4,146 | $ 97,3 |

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(Dollars in millions)

| For the Nine Months Ended September 30, 2005 | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Reconciling Items | Consolidat Total |
|---|---|---|---|---|---|---|
| Net Interest Income | $ 535 | $ 266 | $ 395 | $ 209 | $ 12 | $ 1,4 |
| Provision for Credit Losses | 3 | 52 | 15 | 15 | (80) | |
| Noninterest Income | 3,178 | 256 | 80 | 137 | 31 | 3,6 |
| Noninterest Expense | 2,605 | 175 | 298 | 100 | 157 | 3,3 |
| Income Before Taxes | $ 1,105 | $ 295 | $ 162 | $ 231 | $ (34) | $ 1,7 |
| Contribution Percentage | 62% | 16% | 9% | 13% | | |
| Average Assets | $ 22,966 | $ 17,274 | $ 6,119 | $ 49,547 | $ 4,305 | $ 100,2 |

| For the Nine Months Ended September 30, 2004 | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Reconciling Items | Consolidate Total |
|---|---|---|---|---|---|---|
| Net Interest Income | $ 403 | $ 262 | $ 366 | $ 237 | $ (150) | $ 1,1 |
| Provision for Credit Losses | 2 | 50 | 16 | 15 | (61) | |
| Noninterest Income | 2,937 | 217 | 85 | 126 | 109 | 3,4 |
| Noninterest Expense | 2,340 | 172 | 286 | 83 | 144 | 3,0 |
| Income Before Taxes | $ 998 | $ 257 | $ 149 | $ 265 | $ (124) | $ 1,5 |
| Contribution Percentage | 60% | 15% | 9% | 16% | | |
| Average Assets | $ 22,195 | $ 17,384 | $ 5,445 | $ 49,973 | $ 4,132 | $ 99,1 |

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Reconciling Items

Description-Reconciling items for net interest income primarily relate to the recording of interest income on a taxable equivalent basis, reallocation of capital, and the funding of goodwill and intangibles. The adjustment to the provision for credit losses reflects the difference between the aggregate of the credit provision over a credit cycle for the reportable segments and the Company's recorded provision. The Company's approach to acquisitions is highly centralized and controlled by senior management. Accordingly, the resulting goodwill and other intangible assets are reconciling items for average assets. The related amortization is a reconciling item for noninterest expense. Other reconciling items for noninterest expense primarily reflect corporate overhead and severance.

To assess as accurately as possible the performance of its segments in 2004, the Company analyzed reconciling items related to corporate overhead. As a result of this analysis, the Company reclassified from reconciling items to the individual segments certain items related to insurance, compliance, and incentive compensation expenses. In addition, a minor modification was made to the method used to allocate earnings on capital. The impact of these changes was a decline in pre-tax income of the segments and a reduction in the amount of reconciling items as shown below:

| Segment (In millions) | 3rd Quarter 2004 | 2nd Quarter 2004 | 1st Quarter 2004 | Year-to-date 2004 |
|---|---|---|---|---|
| Servicing and Fiduciary | $ (30) | $ (35) | $ (30) | $ (95) |
| Corporate Banking | (5) | (5) | (5) | (15) |
| Retail Banking | (5) | (1) | (6) | (12) |
| Financial Markets | (7) | (5) | 1 | (11) |
| Subtotal | (47) | (46) | (40) | (133) |
| Reconciling | 47 | 46 | 40 | 133 |

| | | | | |
|---|---|---|---|---|
| Total | $ - | $ - | $ - | $ - |

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The detail of reconciling items for 2005 and 2004 are presented in the following table.

| (In millions) | 3rd Quarter 2005 | 2nd Quarter 2005 | 3rd Quarter 2004 | Year-to-date 2005 | Year-to-date 2004 |
|---|---|---|---|---|---|
| Segments' Revenue | $ 1,736 | $ 1,691 | $ 1,514 | $ 5,056 | $ 4,633 |
| Adjustments: | | | | | |
| Earnings Associated with Assignment of Capital | (8) | (8) | (13) | (25) | (48) |
| Securities Gains | - | 10 | - | 10 | 19 |
| SFAS 13 Cumulative Lease Adjustment | - | - | - | - | (145) |
| Taxable Equivalent Basis and Other Tax-Related Items | 12 | 12 | 14 | 37 | 41 |
| Other | - | 21 | 12 | 21 | 92 |
| Subtotal- Revenue Adjustments | 4 | 35 | 13 | 43 | (41) |
| Consolidated Revenue | $ 1,740 | $ 1,726 | $ 1,527 | $ 5,099 | $ 4,592 |
| Segments' Income Before Tax | $ 633 | $ 597 | $ 532 | $ 1,793 | $ 1,669 |
| Adjustments: | | | | | |
| Revenue Adjustments (Above) | 4 | 35 | 13 | 43 | (41) |
| Provision for Credit Losses Different than GAAP | 16 | 25 | 27 | 80 | 61 |
| Severance | (2) | (4) | - | (7) | (12) |
| Goodwill and Intangible Amortization | (10) | (10) | (9) | (28) | (25) |
| Lease Termination | - | - | - | - | (8) |
| Corporate Overhead and Other | (46) | (45) | (35) | (122) | (99) |
| Consolidated Income Before Tax | $ 595 | $ 598 | $ 528 | $ 1,759 | $ 1,545 |
| Segments' Total Average Assets | $ 96,508 | $ 96,197 | $ 93,209 | $ 95,906 | $ 94,997 |
| Adjustments: | | | | | |
| Goodwill and Intangibles | 4,402 | 4,264 | 4,146 | 4,305 | 4,132 |
| Consolidated Average Assets | $100,910 | $100,461 | $ 97,355 | $100,211 | $ 99,129 |

In addition to the recurring items discussed above, other significant items may be included as reconciling items. In the third quarter of 2005, the $14 million of expenses associated with an anticipated settlement of the previously disclosed Russian funds transfer matter was a reconciling item. In the second quarter of 2005, the $17 million gain on the sale of Financial Models Company, Inc. ("FMC"), $10 million of above trend securities gains, and the $10 million legal accrual for certain regulatory matters were reconciling items. In the first quarter of 2004, SFAS 13 cumulative adjustments to the leasing portfolio, securities gains on four large sponsor funds, gains on sale on Wing Hang Bank, and severance and lease termination expenses were reconciling items.

Allocation to Segments - Earnings associated with the assignment of capital relate to preferred trust securities, which are assigned as capital to segments. Since the Company considers these issues to be capital, it does not allocate the interest expense associated with these securities to individual segments. If this interest expense were allocated to segments, it could be assigned based on segment capital, assets, risks, or some other basis.

The reconciling item for securities gains relates to the Financial Markets business. The taxable equivalent adjustment is not allocated to segments because all segments contribute to the Company's taxable income and the Company believes it is arbitrary to assign the tax savings to any particular segment. Most of the assets that are attributable to the tax



equivalent adjustment are recorded in the Financial Markets segment. In the second quarter of 2005, the gain on sale of FMC would be allocated to the Servicing and Fiduciary segment as would the $10 million regulatory charge. Most of the securities gains result from securities attributable to the Financial Markets segment. In the first quarter of 2004, the $145 million reconciling item related to SFAS 13 cumulative lease adjustment and the $19 million gain on sponsor fund investments would be attributable to the Financial Markets segment. In addition, the $48 million gain on the sale of Wing Hang recorded in Other would be attributable to the Corporate Banking segment.

The reconciling item for the provision for loan losses primarily relates to Corporate Banking. Severance and lease termination costs primarily relate to the Servicing and Fiduciary segment, the Corporate Banking segment, and to staff areas. Goodwill and intangible amortization primarily relates to the Securities Servicing and Fiduciary segment. Corporate overhead is difficult to identify specifically with any particular segment. Approaches to allocating corporate overhead to segments could be based on revenues, expenses, number of employees, or a variety of other measures.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are described in the "Notes to Consolidated Financial Statements" under "Summary of Significant Accounting and Reporting Policies" in the Company's 2004 Annual Report on Form 10-K. Four of the Company's more critical accounting policies are those related to the allowance for credit losses, the valuation of derivatives and securities where quoted market prices are not available, goodwill and other intangibles, and pension accounting.

Allowance for Credit Losses
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The allowance for credit losses represents management's estimate of probable losses inherent in the Company's loan portfolio. This evaluation process is subject to numerous estimates and judgments. Probabilities of default ratings are assigned after analyzing the credit quality of each borrower/counterparty and the Company's internal ratings are generally consistent with external rating agencies' default databases. Loss given default ratings are driven by the collateral, structure, and seniority of each individual asset and are consistent with external loss given default/recovery databases. The portion of the allowance related to impaired credits is based on the present value of future cash flows. Changes in the estimates of probability of default, risk ratings, loss given default/recovery rates, and cash flows could have a direct impact on the allocated allowance for loan losses.

To the extent actual results differ from forecasts or management's judgment, the allowance for credit losses may be greater or less than future charge-offs.

The Company considers it difficult to quantify the impact of changes in forecast on its allowance for credit losses. Nevertheless, the Company believes the following discussion may enable investors to better understand the variables that drive the allowance for credit losses.

Another key variable in determining the allowance is management's judgment in determining the size of the unallocated allowance. At September 30, 2005, the unallocated allowance was 14% of the total allowance. If the unallocated allowance were five percent higher or lower, the allowance would have increased or decreased by $35 million, respectively.

The credit rating assigned to each pass credit is another significant variable in determining the allowance. If each pass credit were rated one grade better, the allowance would have decreased by $54 million, while if each pass credit were rated one grade worse, the allowance would have increased by $100 million.

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For higher risk rated credits, if the loss given default were 10% worse, the allowance would have increased by $6 million, while if the loss given default were 10% better, the allowance would have decreased by $51 million.

For impaired credits, if the fair value of the loans were 10% higher or lower, the allowance would have increased or decreased by $5 million, respectively.

## Valuation of Derivatives and Securities Where Quoted Market Prices Are Not Available

When quoted market prices are not available for derivatives and securities values, such values are determined at fair value, which is defined as the value at which positions could be closed out or sold in a transaction with a willing counterparty over a period of time consistent with the Company's trading or investment strategy. Fair value for these instruments is determined based on discounted cash flow analysis, comparison to similar instruments, and the use of financial models. Financial models use as their basis independently sourced market parameters including, for example, interest rate yield curves, option volatilities, and currency rates. 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 and other factors. Models are benchmarked and validated by independent parties. The Company's valuation process takes into consideration factors such as counterparty credit quality, liquidity and concentration concerns. The Company applies judgment in the application of these factors. In addition, the Company must apply judgment when no external parameters exist. Finally, other factors can affect the Company's estimate of fair value including market dislocations, incorrect model assumptions, and unexpected correlations.

These valuation methods could expose the Company to materially different results should the models used or underlying assumptions be inaccurate. See "Use of Estimates" in "Summary of Significant Accounting and Reporting Policies" of the Notes to Consolidated Financial Statement in the Company's

2004 Annual Report on Form 10-K.

To assist in assessing the impact of a change in valuation, at September 30, 2005, approximately $2.6 billion of the Company's portfolio of securities and derivatives is not priced based on quoted market prices because no such quoted market prices are available. A change of 2.5% in the valuation of these securities and derivatives would result in a change in pre-tax income of $64 million.

Goodwill and Other Intangibles
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The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles, and other intangibles, at fair value as required by SFAS 141. Goodwill ($3,613 million at September 30, 2005) and indefinite-lived intangible assets ($370 million at September 30, 2005) are not amortized but are subject to annual tests for impairment or more often if events or circumstances indicate they may be impaired. Other intangible assets are amortized over their estimated useful lives and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial recording of goodwill and other intangibles requires subjective judgments concerning estimates of the fair value of acquired assets. The goodwill impairment test is performed in two phases. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. Indefinite-



lived intangible assets are evaluated for impairment at least annually by comparing their fair value to their carrying value.

Other identifiable intangible assets ($443 million at September 30, 2005) are evaluated for impairment if events and circumstances indicate a possible impairment. Such evaluation of other intangible assets is based on undiscounted cash flow projections. Fair value may be determined using: market prices, comparison to similar assets, market multiples, discounted cash flow analysis and other determinates. Estimated cash flows may extend far into the future and, by their nature, are difficult to determine over an extended timeframe. Factors that may significantly affect the estimates include, among others, competitive forces, customer behaviors and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates and specific industry or market sector conditions. Other key judgments in accounting for intangibles include useful life and classification between goodwill and indefinite-lived intangibles or other intangibles that require amortization. See Note "Goodwill and Intangibles" of the Notes to Consolidated Financial Statements for additional information regarding intangible assets.

The following discussion may assist investors in assessing the impact of a goodwill or intangible asset impairment charge. The Company has $4.4 billion of goodwill and intangible assets at September 30, 2005. The impact of a 5% impairment charge would result in a change of pre-tax income of approximately $221 million.

Pension Accounting

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The Company has defined benefit pension plans covering approximately 14,700 U.S. employees and approximately 2,400 non-U.S. employees at September 30, 2004.

The Company has three defined benefit pension plans in the U.S. and six overseas. At December 31, 2004, the U.S. plans account for 86% of the projected benefit obligation. Pension credits were $24 million, $39 million, and $95 million in 2004, 2003 and 2002. In addition to its pension plans, the Company also has an Employee Stock Ownership Plan ("ESOP") that may provide additional benefits to certain employees. Upon retirement, covered employees are entitled to the higher of their benefit under the ESOP or the defined benefit plan. If the benefit is higher under the defined benefit plan, the employees' ESOP account is contributed to the pension plan.

A number of key assumption and measurement date values determine pension expense. The key elements include the long-term rate of return on plan assets, the discount rate, the market-related value of plan assets, and for the primary U.S. plan, the price used to value stock in the ESOP. Since 2002, these key elements have varied as follows:

| | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|
| Domestic Plans: | | | | |
| Long-Term Rate of Return on Plan Assets | 8.25% | 8.75% | 9.00% | 10.50% |
| Discount Rate | 6.00 | 6.25 | 6.50 | 7.25 |
| Market-Related Value of Plan Assets(1) (in millions) | $ 1,502 | $ 1,523 | $ 1,483 | $ 1,449 |
| ESOP Stock Price(1) | 30.67 | 27.88 | 33.30 | 42.58 |
| (In millions) | | | | |
| Net U.S Pension Credit/(Expense) | | $ 31 | $ 46 | $ 100 |
| All other Pension Credit/(Expense) | | (7) | (7) | (5) |
| Total Pension Credit | | $ 24 | $ 39 | $ 95 |

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(1) Actuarially smoothed data. See "Critical Accounting Policies" in the MD&A section of the Company's 2004 Annual Report on Form 10-K.

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The discount rate for U.S. pension and postretirement plans is based on, among other factors, a spread over the Lehman AA Long-Term Corporate Bond Index Yield. At September 30, 2004 and 2003, the Lehman AA Long-Term Corporate Bond Index Yields were 5.36% and 5.35%, and the discount rates were 6.00% and 6.25%, respectively. The discount rates for foreign pension plans are based on high quality corporate bonds rates in countries that have an active corporate bond market. In those countries with no active corporate bond market, discount rates are based on local government bond rates plus a credit spread.

The Company's expected long-term rate of return on plan assets is based on anticipated returns for each asset class. For 2005 and 2004, the assumptions for the long-term rates of return on plan assets were 8.25% and 8.75%, respectively. Anticipated returns are weighted for the target allocation for each asset class. Anticipated returns are based on forecasts for prospective returns in the equity and fixed income markets, which should track the long-term historical returns for these markets. The Company also considers the growth outlook for U.S. and global economies, as well as current and prospective interest rates.

The market-related value of plan assets also influences the level of pension expense. Differences between expected and actual returns are recognized over five years to compute an actuarially derived market-related value of plan assets.

Unrecognized actuarial gains and losses are amortized over the future service period (11 years) of active employees if they exceed a threshold amount. The Company currently has unrecognized losses which are being amortized.

For the first nine months of 2005, pension expense increased by $36 million, in line with an anticipated $48 million increase for the year 2005. This increase reflects changes in assumptions, the amortization of unrecognized pension losses and a decline in the market-related value of plan assets. These same factors are expected to further increase pension expense in 2006. To reduce the impact of these factors, the Company changed certain of its domestic defined benefit pension plans during the third quarter of 2005. The primary change was to switch the computation of benefits from final average pay to career average pay effective January 1, 2006.

The annual impact on the primary U.S. plan of hypothetical changes in the key elements on the pension credit are shown in the table below.

| (Dollars in millions) | Increase in Pension Expense | | 2005 Base | Decrease in Pension Expense | |
|---|---|---|---|---|---|
| Long-Term Rate of Return on Plan Assets | 7.25% | 7.75% | 8.25% | 8.75% | 9.25% |
| Change in Pension Expense | $ 14.6 | $ 7.3 | $ - | $ 7.3 | $ 14.6 |
| Discount Rate | 5.50% | 5.75% | 6.00% | 6.25% | 6.50% |
| Change in Pension Expense | $ 7.4 | $ 3.7 | $ - | $ 3.6 | $ 7.2 |
| Market-Related Value of Plan Assets | -20.00% | -10.00% | $1,502 | +10.00% | +20.00% |
| Change in Pension Expense | $ 58.2 | $ 29.1 | - | $ 27.2 | $ 39.6 |
| ESOP Stock Price | $20.67 | $25.67 | $30.67 | $35.67 | $40.67 |
| Change in Pension Expense | $ 14.6 | $ 7.0 | $ - | $ 6.5 | $ 12.6 |

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CONSOLIDATED BALANCE SHEET REVIEW

Total assets were $101.8 billion at September 30, 2005, compared with $94.5 billion at December 31, 2004 and $103.1 billion at June 30, 2005. The September 30, 2005 balance sheet was slightly elevated due to some sizable overdrafts from securities servicing customers. The increase in assets from December 31, 2004 reflects increased loans to securities industry customers. Total shareholders' equity was $9.6 billion at September 30, 2005, compared with $9.3 billion at December 31, 2004 and $9.5 billion at June 30, 2005. In comparison to December 31, 2004, shareholders' equity reflects the retention of earnings and an increase in the securities valuation allowance.

Return on average common equity for the third quarter of 2005 was 16.15%, compared with 15.90% in the third quarter of 2004 and 17.12% in the second quarter of 2005. For the nine months of 2005, return on average common equity was 16.59% compared with 16.73% in 2004.

Return on average assets for the third quarter of 2005 was 1.53%, compared with 1.45% in the third quarter of 2004 and 1.59% in the second quarter of 2005. For the nine months of 2005, return on average assets was 1.56% compared with 1.47% in 2004.

## Investment Securities

The table below shows the distribution of the Company's securities portfolio:

Investment Securities (at Fair Value)

| (In millions) | 09/30/05 | 12/31/04 |
|---|---|---|
| Fixed Income: | | |
| Mortgage-Backed Securities | $ 21,967 | $ 19,393 |
| Asset-Backed Securities | 29 | - |
| Corporate Debt | 1,160 | 1,259 |
| Short-Term Money Market Instruments | 964 | 982 |
| U.S. Treasury Securities | 225 | 403 |
| U.S. Government Agencies | 620 | 505 |
| State and Political Subdivisions | 228 | 197 |
| Emerging Market Debt (Collateralized By U.S. Treasury Zero Coupon Obligations) | 117 | 107 |
| Other Foreign Debt | 471 | 545 |
| Subtotal Fixed Income | 25,781 | 23,391 |
| Equity Securities: | | |
| Money Market Funds | 394 | 388 |
| Other | 32 | 10 |
| Subtotal Equity Securities | 426 | 398 |
| Total Securities | $ 26,207 | $ 23,789 |

Total investment securities were $26.2 billion at September 30, 2005, compared with $25.8 billion at June 30, 2005. Average investment securities were $25.6 billion in the third quarter of 2005, compared with $22.4 billion in the third quarter of last year and $24.7 billion in the second quarter of 2005. The increases were primarily due to growth in the Company's portfolio of highly rated mortgage-backed securities, which are 89% rated AAA, 7% AA, and 4% A. The Company has been adding either adjustable or short life classes of structured mortgage-backed securities, both of which have short durations. The effective duration of the Company's mortgage portfolio at September 30, 2005 was approximately 1.7 years.

Net unrealized loss for securities available-for-sale was $59 million at September 30, 2005, compared with net unrealized gains of $150 million at

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September 30, 2004 and net unrealized gains of $60 million at June 30, 2005. The change in the value of available-for-sale securities at September 30, 2005 from June 30, 2005 reflects the increase in long-term interest rates over the quarter. The asymmetrical accounting treatment of the impact of a change in interest rates on the Company's balance sheet may create a situation in which an increase in interest rates can adversely affect reported equity and regulatory capital, even though economically there may be no impact on the economic capital position of the Company. For example, an increase in rates will result in a decline in the value of the fixed rate portion of the Company's fixed income investment portfolio, which will be reflected through a reduction in other comprehensive income in the Company's shareholders' equity, thereby affecting the tangible common equity ("TCE") ratio. Under current accounting rules, there is no corresponding change in value of the Company's fixed rate liabilities, even though economically these liabilities are more valuable as rates rise.

## Loans

| (Dollars in billions) | Period End | | | Quarterly Average | | | Year-to-date Average | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Non-Margin | Margin | Total | Non-Margin | Margin | Total | Non-Margin | Margi |
| September 30, 2005 | $42.1 | $ 35.8 | $ 6.3 | $39.9 | $ 33.5 | $ 6.4 | $39.3 | $ 32.9 | $ 6. |
| December 31, 2004 | 35.8 | 29.7 | 6.1 | 39.4 | 33.0 | 6.4 | 37.8 | 31.5 | 6. |
| September 30, 2004 | 37.1 | 31.2 | 5.9 | 37.6 | 31.3 | 6.3 | 37.2 | 30.9 | 6. |

Total loans were $42.1 billion at September 30, 2005 compared with $35.8 billion at December 31, 2004. The increase in total loans from December 31, 2004 primarily reflects an increase in overdrafts and securities industry loans. The Company continues to focus on its strategy of reducing non-strategic and outsized corporate loan exposures to improve its credit risk profile. Average total loans were $39.9 billion in the third quarter of 2005, compared with $37.6 billion in the third quarter of 2004 while for the nine months ended September 30, 2005, average loans were $39.3 billion compared with $37.2 billion for September 30, 2004. The increase in average loans from September 30, 2004 results from increased lending to financial institutions.

The following tables provide additional details on the Company's credit exposures and outstandings at September 30, 2005 in comparison to December 31, 2004.

## Overall Loan Portfolio

| (In billions) | Loans | Unfunded Commitments | Total Exposure | Loans | Unfunded Commitments | Total Exposure |
|---|---|---|---|---|---|---|
| | 09/30/05 | 09/30/05 | 09/30/05 | 12/31/04 | 12/31/04 | 12/31/04 |
| Financial Institutions | $ 14.7 | $ 22.7 | $ 37.4 | $ 9.5 | $ 21.6 | $ 31.1 |
| Corporate | 3.6 | 19.0 | 22.6 | 3.6 | 19.4 | 23.0 |
| | 18.3 | 41.7 | 60.0 | 13.1 | 41.0 | 54.1 |
| Consumer & Middle Market | 9.8 | 4.6 | 14.4 | 8.9 | 4.5 | 13.4 |
| Leasing Financings | 5.7 | 0.1 | 5.8 | 5.6 | - | 5.6 |
| Commercial Real Estate | 2.0 | 1.3 | 3.3 | 2.1 | 1.2 | 3.3 |
| Margin loans | 6.3 | - | 6.3 | 6.1 | - | 6.1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | $ 42.1 | $ 47.7 | $ 89.8 | $ 35.8 | $ 46.7 | $ 82.5 |

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## Financial Institutions

The financial institutions portfolio exposure was $37.4 billion at September 30, 2005 compared to $31.1 billion at December 31, 2004. The increase in exposure from year-end 2004 reflects greater activity in the capital markets at September 30, 2005, which drove higher levels of customer borrowing, compared with December 31, 2004. These exposures are of high quality with 81% meeting the investment grade criteria of the Company's rating system. These exposures are generally short-term, with 77% expiring within one year and are frequently secured. For example, mortgage banking, securities industry, and investment managers often borrow against marketable securities held in custody at the Company. The diversity of the portfolio is shown in the accompanying table.

(In billions)

| | September 30, 2005 | | | | | December 31, 2004 | | |
|---|---|---|---|---|---|---|---|---|
| Lending Division | Loans | Unfunded Commitments | Total Exposures | %Inv Grade | %due | | Unfunded | Total |

The Company's exposure to the airline industry consists of a $473 million leasing portfolio (including a $16 million real estate lease exposure). The airline-leasing portfolio consists of $250 million to major U.S. carriers, $134 million to foreign airlines and $89 million to U.S. regionals.

During the third quarter of 2005, the airline industry continued to face liquidity issues driven by persistently high fuel prices and the inability to implement meaningful fare increases. The industry's considerable excess

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capacity and higher oil prices continue to negatively impact the valuations of aircraft, especially the less fuel-efficient models, in the secondary market. Because of these factors, the Company continues to maintain a sizable allowance for loan losses against these exposures and to closely monitor the portfolio. At September 30, 2005, two of the Company's airline customers with aggregate exposure of $150 million had filed for bankruptcy. These exposures are 94% reserved. The Company expects these airlines to make decisions during the fourth quarter to affirm or disaffirm these leases. These decisions will drive the Company's level of charge-offs in the fourth quarter.

## Counterparty Risk Ratings Profile

The table below summarizes the risk ratings of the Company's foreign exchange and interest rate derivative counterparty credit exposure for the past year.

For the Quarter Ended

| Rating(1) | 9/30/05 | 6/30/05 | 3/31/05 | 12/31/04 | 9/30/04 |
|---|---|---|---|---|---|
| AAA to AA- | 71% | 68% | 74% | 68% | 68% |
| A+ to A- | 13 | 15 | 13 | 19 | 21 |
| BBB+ to BBB- | 13 | 14 | 10 | 10 | 8 |
| Noninvestment Grade | 3 | 3 | 3 | 3 | 3 |
| Total | 100% | 100% | 100% | 100% | 100% |

(1) Represents credit rating agency equivalent of internal credit ratings.

Nonperforming Assets

| (Dollars in millions) | 9/30/05 | 6/30/05 | Change 9/30/05 vs. 6/30/05 | Percent Inc/ (Dec) |
|---|---|---|---|---|
| Loans: | | | | |
| Commercial | $ 35 | $ 78 | $ (43) | (55)% |
| Foreign | 15 | 15 | (-) | - |
| Other | 57 | 47 | 10 | 21 |
| Total Nonperforming Loans | 107 | 140 | (33) | (24) |
| Other Real Estate | - | - | - | - |
| Total Nonperforming Assets | $ 107 | $ 140 | $ (33) | (24) |
| Nonperforming Assets Ratio | 0.3% | 0.4% | | |
| Allowance for Loan Losses/Nonperforming Loans | 524.9 | 400.5 | | |
| Allowance for Loan Losses/Nonperforming Assets | 524.9 | 400.5 | | |
| Total Allowance for Credit Losses/Nonperforming Loans | 661.2 | 506.1 | | |
| Total Allowance for Credit Losses/Nonperforming Assets | 661.2 | 506.1 | | |

Nonperforming assets declined by $33 million, or 24%, during the third quarter of 2005 to $107 million and are down 63% from a year ago. The sequential quarter decrease in nonperforming loans primarily reflects the Company's partial sale of exposure to a cable operator that is categorized as nonperforming. The decrease from the third quarter of 2004 primarily reflects loan sales, paydowns, and charge-offs of commercial loans. The ratio of the total allowance for credit losses to nonperforming assets increased to 661.2% at September 30, 2005, compared with 263.3% at September 30, 2004 and 506.1% at June 30, 2005.

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Activity in Nonperforming Assets

| (In millions) | Quarter End September 30, 2005 | Year-to-date September 30, 2005 |
|---|---|---|

| | | |
|---|---|---|
| Balance at Beginning of Period | $ 140 | $ 214 |
| Additions | 18 | 24 |
| Charge-offs | (6) | (18) |
| Paydowns/Sales | (45) | (113) |
| Balance at End of Period | $ 107 | $ 107 |

Interest income would have been increased by $1 million for each of the third quarters of 2005 and 2004 if loans on nonaccrual status at September 30, 2005 and 2004 had been performing for the entire period. On a year-to-date basis, interest income would have increased by $3 million and $8 million for 2005 and 2004 had loans on nonaccrual status at September 30, 2005 and 2004 been performing for the entire period.

## Impaired Loans

The table below sets forth information about the Company's impaired loans. The Company uses the discounted cash flow, collateral value, or market price methods for valuing its impaired loans:

| (In millions) | September 30, 2005 | June 30, 2005 | September 30, 2004 |
|---|---|---|---|
| Impaired Loans with an Allowance | $ 48 | $ 55 | $ 160 |
| Impaired Loans without an Allowance(1) | 22 | 64 | 108 |
| Total Impaired Loans | $ 70 | $ 119 | $ 268 |
| Allowance for Impaired Loans(2) | $ 20 | $ 30 | $ 57 |
| Average Balance of Impaired Loans during the Quarter | $ 120 | $ 145 | $ 293 |
| Interest Income Recognized on Impaired Loans during the Quarter | $ 1.2 | $ 1.6 | $ 2.4 |

(1) 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.
(2) The allowance for impaired loans is included in the Company's allowance for credit losses.

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## Allowance

| (Dollars in millions) | September 30, 2005 | June 30, 2005 | September 30, 2004 |
|---|---|---|---|
| Margin Loans | $ 6,320 | $ 6,055 | $ 5,911 |
| Non-Margin Loans | 35,823 | 34,626 | 31,208 |
| Total Loans | $ 42,143 | $ 40,681 | $ 37,119 |
| Allowance for Loan Losses | $ 561 | $ 562 | $ 598 |
| Allowance for Lending-Related Commitments | 146 | 148 | 158 |

| | | | |
|---|---|---|---|
| Total Allowance for Credit Losses | $ 707 | $ 710 | $ 756 |
| Allowance for Loan Losses As a Percent of Total Loans | 1.33% | 1.38% | 1.61% |
| Allowance for Loan Losses As a Percent of Non-Margin Loans | 1.57 | 1.62 | 1.92 |
| Total Allowance for Credit Losses As a Percent of Total Loans | 1.68 | 1.75 | 2.04 |
| Total Allowance for Credit Losses As a Percent of Non-Margin Loans | 1.97 | 2.05 | 2.42 |

The total allowance for credit losses was $707 million, or 1.68% of total loans at September 30, 2005, compared with $756 million, or 2.04% of total loans at September 30, 2004 and $710 million, or 1.75% of total loans at June 30, 2005.

The Company has $6.3 billion of secured margin loans on its balance sheet at September 30, 2005. The Company has rarely suffered a loss on these types of loans and doesn't allocate any of its allowance for credit losses to these loans. As a result, the Company believes 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 ratio of the total allowance for credit losses to non-margin loans decreased to 1.97% at September 30, 2005, compared with 2.42% at September 30, 2004, and 2.05% at June 30, 2005, reflecting continued improvement in the credit quality in the third quarter of 2005.

The ratio of the allowance for loan losses to nonperforming assets was 524.9% at September 30, 2005, up from 208.1% at September 30, 2004, and 400.5% at June 30, 2005.

The allowance for loan losses and the allowance for lending related commitments consists of four elements: (1) an allowance for impaired credits (nonaccrual commercial credits over $1 million), (2) an allowance for higher risk rated credits, (3) an allowance for pass rated credits, and (4) an unallocated allowance based on general economic conditions and risk factors in the Company's 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 fair value. Fair value is either the present value of the expected future cash flows from 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. The Company rates each credit in its portfolio that exceeds $1 million and assigns 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

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risk rated loans are conducted quarterly and the loan's rating is updated as necessary. The Company prepares a loss migration analysis and compares its 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. Pools of past due consumer loans are included in specific risk categories based on their length of time past due.

The third element, pass rated credits, is based on the Company's 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 credit rating is dependent upon the borrower's probability of default. The loss given default incorporates a recovery expectation. Borrower and loss given default ratings are reviewed semi-annually at a minimum and are periodically mapped to third party, including rating agency, default and recovery data bases to ensure ongoing consistency and validity. Commercial loans over $1 million are individually analyzed before being assigned a credit rating. The Company also applies this technique to its leasing and consumer portfolios. All current consumer loans are included in the pass rated consumer pools.

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;
* Actions by the Federal Reserve Board;
* Delay in receipt of information to evaluate loans or confirm existing credit deterioration; and
* Geopolitical issues and their impact on the economy.

Based on an evaluation of these four elements, including individual credits, historical credit losses, and global economic factors, the Company has allocated its allowance for credit losses as follows:

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Domestic | | |
| Real Estate | 2% | 2% |
| Commercial | 75 | 75 |
| Consumer | 7 | 3 |
| Foreign | 2 | 4 |
| Unallocated | 14 | 16 |
| | 100% | 100% |

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

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Deposits

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Total deposits were $61.1 billion at September 30, 2005, compared with $58.4 billion at September 30, 2004 and $64.0 billion at June 30, 2005. The decrease on a sequential quarter basis was primarily due to lower market activity levels, which resulted in a reduced level of customer deposits at quarter end. Noninterest-bearing deposits were $16.3 billion at September 30, 2005, compared with $17.4 billion at December 31, 2004. Interest-bearing deposits were $44.8 billion at September 30, 2005, compared with $41.3 billion at December 31, 2004.

LIQUIDITY

The Company maintains its liquidity through the management of its assets and liabilities, utilizing worldwide financial markets. The diversification of liabilities reflects the Company's efforts to maintain flexibility of funding sources under changing market conditions. Stable core deposits, including demand, retail time, and trust deposits from processing businesses, are generated through the Company's 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 the Company to issue long-term liabilities with limited exposure to interest rate risk. Liquidity also results from the maintenance of a portfolio of assets which can be easily sold and the monitoring of unfunded loan commitments, thereby reducing unanticipated funding requirements. Liquidity is managed on both a consolidated basis and at The Bank of New York Company, Inc. parent company ("Parent").

On a consolidated basis, 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 $13.1 billion and $14.5 billion on an average basis for the nine months of 2005 and 2004. Average foreign deposits, primarily from the Company's European based securities servicing business, were $25.9 billion at both September 30, 2005 and 2004. Domestic savings and other time deposits were $9.9 billion on a year-to-date average basis at September 30, 2005 compared to $10.2 billion at September 30, 2004. Average payables to customers and broker-dealers decreased to $6.0 billion from $6.5 billion. On a year-to-date basis, long-term debt averaged $7.2 billion and $6.1 billion at September 30, 2005 and 2004. A significant reduction in the Company's securities servicing businesses would reduce its access to foreign deposits.

The Parent has four major sources of liquidity: dividends from its subsidiaries, the commercial paper market, a revolving credit agreement with third party financial institutions, and access to the capital markets.

At September 30 2005, the Bank can pay dividends of approximately $744 million to the Parent without the need for regulatory waiver. This dividend capacity would increase in the remainder of 2005 to the extent of the Bank's net income less dividends. Nonbank subsidiaries of the Parent have liquid assets of approximately $264 million. These assets could be liquidated and the proceeds delivered by dividend or loan to the Parent.

For the quarter ended September 30, 2005, the Parent's quarterly average commercial paper borrowings were $231 million compared with $67 million in 2004. At September 30, 2005, the Parent had cash of $409 million compared with cash of $777 million at September 30, 2004 and $858 million at June 30, 2005. Net of commercial paper outstanding, the Parent's cash position at September 30, 2005 was down $475 million compared with September 30, 2004 reflecting the Parent's purchase of Pershing from the Bank in the first quarter of 2005.

The Parent has a back-up line of credit of $275 million with 14 financial institutions. This line of credit matures in October 2006. There were no borrowings under the line of credit at September 30, 2005 and September 30, 2004.

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The Parent also has the ability to access the capital markets. At September 30, 2005, the Parent had a shelf registration statement with a capacity of $1.7 billion of debt, preferred stock, preferred trust securities, or common stock. Access to the capital markets is partially dependent on the Company's credit ratings, which as of September 30, 2005 were as follows:

| | Parent Commercial Paper | Parent Subordinated Long-Term Debt | Parent Senior Long-Term Debt | The Bank of New York Long-Term Deposits | Outlook |
|---|---|---|---|---|---|
| Standard & Poor's | A-1 | A | A+ | AA- | Stable |
| Moody's | P-1 | A1 | Aa3 | Aa2 | Stable |
| Fitch | F1+ | A+ | AA- | AA | Stable |

The Parent's major uses of funds are payment of principal and interest on its borrowings, acquisitions, and additional investment in its subsidiaries.

The Parent has $100 million of long-term debt that becomes due in 2005 subsequent to September 30, 2005 and $225 million of long-term debt that is due in 2006. In addition, at September 30, 2005, the Parent has the option to call $230 million of subordinated debt in 2006, which it will call and refinance if market conditions are favorable. The Parent expects to refinance any debt it repays by issuing a combination of senior and subordinated debt.

The Company has $200 million of preferred trust securities that are callable in 2005. These securities qualify as Tier 1 Capital. The Company has not yet decided if it will call these securities. The decision to call will be based on interest rates, the availability of cash and capital, and regulatory conditions. If the Company calls the preferred trust securities, it expects to replace them with new preferred trust securities or senior or subordinated debt.

Double leverage is the ratio of investment in subsidiaries divided by the Company's consolidated equity plus trust preferred securities. The Company's double leverage ratio at September 30, 2005 and 2004 was 103.82% and 98.44%, respectively. The Company's 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 the Company's ability to invest in its subsidiaries to expand its businesses.

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 $500 million with five financial institutions matures in March 2006. There were no borrowings against this line of credit during the third quarter of 2005. Pershing LLC has three separate uncommitted lines of credit amounting to $1 billion in aggregate. Average daily borrowing under these lines was $14 million, in aggregate, during the third quarter of 2005.

Pershing Limited, an indirect subsidiary of the Company, has committed and uncommitted lines in place for liquidity purposes. The committed lines of credit of $275 million with four financial institutions matures in April 2006.

There were no borrowings against this line of credit during the third quarter of 2005. Pershing Limited has three separate uncommitted lines of credit amounting to $300 million in aggregate. Average daily borrowing under these lines was $217 million, in aggregate, during the third quarter of 2005.

The following comments relate to the information disclosed in the Consolidated Statements of Cash Flows.

Cash used for other operating activities was $0.2 billion for the nine months of 2005, compared with $3.4 billion provided by operating activities through September 30, 2004. The use of funds from operations in 2005 was principally the result of changes in trading activities. The sources of cash

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flows from operations in 2004 were principally the result of changes in trading and net income.

In the nine months of 2005, cash used for investing activities was $7.0 billion as compared to cash used for investing activities in the nine months of 2004 of $3.5 billion. In the nine months of 2005, purchases of securities available-for-sale and principal disbursed on loans to customers were a significant use of funds. Purchases of securities available-for-sale and change in interest-bearing deposits were the primary use of funds in 2004.

Through September 30, 2005, cash provided by financing activities was $6.5 billion, compared to cash used of $0.5 billion in the nine months of 2004. Sources of funds in 2005 include deposits and the issuance of long-term debt. Deposits, other borrowed funds and the issuance of long-term debt and common stock were the primary source of funds in 2004.

CAPITAL RESOURCES

Regulators establish certain levels of capital for bank holding companies and banks, including the Company and the Bank, in accordance with established quantitative measurements. In order for the Parent to maintain its status as a financial holding company, the Bank must 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 September 30, 2005 and 2004, the Company and the Bank were considered well capitalized on the basis of the ratios (defined by regulation) of Total and Tier 1 capital to risk-weighted assets and leverage (Tier 1 capital to average assets), which are shown as follows:

| | September 30, 2005 | | September 30, 2004 | | | | |
|---|---|---|---|---|---|---|---|
| | Company | Bank | Company | Bank | Company Targets | Well Capitalized Guidelines | Adequately Capitalized Guidelines |
| Tier 1* | 7.93% | 8.37% | 8.09% | 7.59% | 7.75% | 6% | 4% |
| Total Capital** | 12.20 | 11.52 | 12.09 | 11.69 | 11.75 | 10 | 8 |
| Leverage | 6.59 | 7.01 | 6.38 | 5.98 | | 5 | 3-5 |
| Tangible Common Equity ("TCE") | 5.32 | 6.29 | 5.49 | 5.79 | 5.25+ | N.A. | N.A. |

During the third quarter of 2005 the Company retained $228 million of earnings. Also in the quarter, the Company issued $55 million subordinated debt qualifying as Tier II capital. During the third quarter of 2005, the Company bought back 2.2 million shares.

The Company's regulatory Tier 1 capital and Total capital ratios were 7.93% and 12.20% at September 30, 2005, compared with 8.09% and 12.09% at September 30, 2004, and 8.07% and 12.49% at June 30, 2005. The regulatory leverage ratio was 6.59% at September 30, 2005, compared with 6.38% at September 30, 2004 and 6.55% at June 30, 2005. The Company's tangible common equity as a percentage of total assets was 5.32% at September 30, 2005, compared with 5.49% at September 30, 2004 and 5.26% at June 30, 2005. The tangible common equity ratio varies depending on the size of the balance sheet at quarter-end and the impact of interest rates on unrealized gains and losses among other things. The balance sheet size fluctuates from quarter to quarter based on levels of market activity. In general, when servicing clients are more actively trading securities, deposit balances, and the balance sheet as a whole, are higher to finance these activities.

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A billion dollar change in assets changes the TCE ratio by 5 basis points while a $100 million change in common equity changes the TCE ratio by 10 basis points.

On March 1, 2005, the Board of Governors of the Federal Reserve System (the "FRB") adopted a final rule that allows the continued limited inclusion of trust preferred securities in the Tier 1 capital of bank holding companies (BHCs). See "Accounting Changes and New Accounting Pronouncements" in the Notes to the Consolidated Financial Statements.

The following table presents the components of the Company's risk-based capital at September 30, 2005 and 2004:

| (In millions) | 2005 | 2004 |
|---|---|---|
| Common Stock | $ 9,631 | $ 9,054 |
| Preferred Stock | - | - |
| Preferred Trust Securities | 1,150 | 1,150 |
| Adjustments: Intangibles | (4,421) | (4,165) |
| Securities Valuation Allowance | - | (93) |
| Merchant Banking Investments | (8) | (6) |
| Tier 1 Capital | 6,352 | 5,940 |
| Qualifying Unrealized Equity Security Gains | - | - |
| Qualifying Subordinated Debt | 2,709 | 2,193 |
| Qualifying Allowance for Loan Losses | 706 | 749 |
| Tier 2 Capital | 3,415 | 2,942 |
| Total Risk-Based Capital | $ 9,767 | $ 8,882 |
| Risk-Adjusted Assets | $80,065 | $73,447 |

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TRADING ACTIVITIES

The fair value and notional amounts of the Company's financial instruments held for trading purposes at September 30, 2005 and 2004 are as follows:

| (In millions) | September 30, 2005 | | | 2005 Average | |
|---|---|---|---|---|---|
| | Notional | Fair Value | | Fair Value | |
| Trading Account | Amount | Assets | Liabilities | Assets | Liabilities |
| Interest Rate Contracts: | | | | | |
| Futures and Forward Contracts | $ 29,868 | $ - | $ - | $ - | $ 9 |
| Swaps | 252,347 | 1,690 | 1,059 | 1,577 | 870 |
| Written Options | 203,688 | - | 1,201 | - | 1,222 |
| Purchased Options | 158,130 | 211 | - | 160 | - |
| Foreign Exchange Contracts: | | | | | |
| Swaps | 3,087 | - | - | - | - |
| Written Options | 5,316 | - | - | - | 2 |
| Purchased Options | 7,096 | 28 | - | 44 | - |
| Commitments to Purchase and Sell Foreign Exchange | 79,491 | 522 | 471 | 422 | 398 |
| Debt Securities | - | 3,642 | 124 | 3,359 | 104 |
| Credit Derivatives | 1,807 | 1 | 5 | 1 | 7 |
| Equities | 2,999 | 198 | 140 | 159 | 115 |
| Total Trading Account | | $6,292 | $ 3,000 | $5,722 | $ 2,727 |

| | September 30, 2004 | | | 2004 Average | |
|---|---|---|---|---|---|
| | Notional | Fair Value | | Fair Value | |
| Trading Account | Amount | Assets | Liabilities | Assets | Liabilities |
| Interest Rate Contracts: | | | | | |
| Futures and Forward Contracts | $ 38,572 | $ 26 | $ - | $ 35 | $ - |
| Swaps | 222,255 | 1,717 | 725 | 1,655 | 744 |
| Written Options | 160,255 | - | 1,324 | - | 1,244 |
| Purchased Options | 112,129 | 186 | - | 210 | - |
| Foreign Exchange Contracts: | | | | | |
| Swaps | 2,937 | - | - | - | - |
| Written Options | 6,333 | - | - | - | 9 |
| Purchased Options | 9,356 | 39 | - | 50 | - |
| Commitments to Purchase and Sell Foreign Exchange | 69,985 | 502 | 503 | 374 | 396 |
| Debt Securities | - | 1,332 | 102 | 1,581 | 106 |
| Credit Derivatives | 1,497 | 2 | 5 | 2 | 7 |
| Equities | 1,958 | 217 | 196 | 119 | 83 |
| Total Trading Account | | $4,021 | $ 2,855 | $4,026 | $ 2,589 |

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

The Company manages 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 an independent 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 used to calculate economic capital, which is allocated to the business units for computing risk-adjusted performance.

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As 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 historic 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 table indicates the calculated VAR amounts for the trading portfolio for the periods indicated.

| (Dollars in millions) | 3rd Quarter 2005 | | | Year-to-date 2005 | | | |
|---|---|---|---|---|---|---|---|
| | Average | Minimum | Maximum | Average | Minimum | Maximum | 9/30/0 |
| Interest Rate | $ 2.7 | $ 1.8 | $ 4.4 | $ 2.8 | $ 1.8 | $ 4.6 | $ 3. |
| Foreign Exchange | 1.1 | 0.4 | 2.9 | 1.6 | 0.4 | 4.1 | 0. |
| Equity | 0.5 | 0.3 | 0.8 | 0.6 | 0.3 | 1.1 | 0. |
| Credit Derivatives | 1.2 | 0.9 | 1.8 | 1.6 | 0.9 | 2.1 | 1. |
| Diversification | (1.0) | NM | NM | (1.3) | NM | NM | (1. |
| Overall Portfolio | 4.5 | 3.2 | 7.0 | 5.3 | 3.2 | 9.1 | 5. |

| | 3rd Quarter 2004 | | | Year-to-date 2004 | | | |
|---|---|---|---|---|---|---|---|
| | Average | Minimum | Maximum | Average | Minimum | Maximum | 9/30/0 |
| Interest Rate | $ 2.8 | $ 2.1 | $ 4.2 | $ 4.1 | $ 2.1 | $ 7.8 | $ 2. |
| Foreign Exchange | 0.9 | 0.5 | 1.6 | 1.0 | 0.4 | 3.1 | 1. |
| Equity | 0.8 | 0.6 | 1.6 | 1.2 | 0.6 | 2.4 | 1. |
| Credit Derivatives | 1.5 | 1.3 | 1.6 | 1.8 | 1.3 | 2.1 | 1. |
| Diversification | (1.4) | NM | NM | (1.4) | NM | NM | (2. |
| Overall Portfolio | 4.6 | 3.6 | 6.2 | 6.7 | 3.6 | 12.8 | 4. |

NM - 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 nine months of 2005, interest rate risk generated approximately 42% of average VAR, credit derivatives generated 24% of average VAR, foreign exchange accounted for 25% of average VAR, and equity generated 9% of average VAR. During the third quarter and nine months of 2005, the Company's daily trading loss did not exceed the Company's calculated VAR amounts on any given day.

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

Distribution of Revenues

| Revenue Range | For the Quarter Ended 9/30/05 | 6/30/05 | 3/31/05 | 12/31/04 | 9/30/04 |
|---|---|---|---|---|---|
| (Dollars in millions) | Number of Occurrences | | | | |
| Less than $(2.5) | 0 | 0 | 0 | 0 | 0 |
| $(2.5)~ $ 0 | 3 | 6 | 1 | 6 | 11 |
| $ 0 ~ $ 2.5 | 51 | 40 | 50 | 49 | 48 |
| $ 2.5 ~ $ 5.0 | 8 | 16 | 11 | 8 | 5 |
| More than $5.0 | 2 | 2 | 0 | 0 | 0 |



ASSET/LIABILITY MANAGEMENT

The Company's asset/liability management activities include lending, investing in securities, accepting deposits, raising money as needed to fund assets, and processing securities and other transactions. The market risks that arise from these activities are interest rate risk, and to a lesser degree, foreign exchange risk. The Company's primary market risk is exposure to movements in U.S. dollar interest rates. Exposure to movements in foreign currency interest rates also exists, but to a significantly lower degree. The Company actively manages interest rate sensitivity. In addition to gap analysis, the Company uses 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 income. The model incorporates management's assumptions regarding interest rates, balance changes on core deposits, and changes in the prepayment behavior of loans and securities and the impact of derivative financial instruments used for interest rate risk management. 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 may not precisely estimate net interest income or the impact of higher or lower interest rates on net interest income. 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.

The Company evaluates the effect on earnings by running various interest rate ramp scenarios up and down from a baseline scenario, which assumes no changes in interest rates. 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 income between the scenarios over a 12-month measurement period. The measurement of interest rate sensitivity is the percentage change in net interest income as shown in the following table:

| (Dollars in millions) | September 30, 2005 $ | % | June 30, 2005 $ | % |
|---|---|---|---|---|
| +200 bp Ramp vs. Stable Rate | $ (26) | (1.25)% | $ (15) | (0.74)% |
| +100 bp Ramp vs. Stable Rate | (6) | (0.27) | 4 | 0.20 |
| -100 bp Ramp vs. Stable Rate | (3) | (0.16) | (17) | (0.84) |

The base case scenario Fed Funds rate in the September 30, 2005 analysis was 3.75% versus 3.25% for the June 30, 2005 analysis. The 100+ basis point ramp scenario assumes short-term rates rise 25 basis points in each of the next four quarters, while the 200+ ramp scenario assumes a 50 basis point per quarter increase. The 100+ basis point September 30, 2005 scenario assumes a steepening of the yield curve with 10-year rates rising 106 basis points. The 200+ basis point September 30, 2005 scenario assumes a slight steepening of the yield curve with 10-year rates rising 205 basis points. These scenarios do not reflect strategies that management could employ to limit the impact as interest rate expectations change.

The above table relies on certain critical assumptions including depositors' behavior related to interest rate fluctuations and the prepayment and extension risk in certain of the Company's assets. To the extent that actual behavior is different from that assumed in the models, there could be a change in interest rate sensitivity.

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STATISTICAL INFORMATION

THE BANK OF NEW YORK COMPANY, INC.
Average Balances and Rates on a Taxable Equivalent Basis
(Dollars in millions)

| | For the three months ended September 30, 2005 | | | For the three months ended September 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Avera Rate |
| ASSETS | | | | | | |
| Interest-Bearing Deposits in Banks (primarily foreign) | $ 8,629 | $ 68 | 3.13% | $ 11,416 | $ 77 | 2.6 |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 4,465 | 38 | 3.37 | 6,443 | 20 | 1.2 |
| Margin Loans | 6,392 | 71 | 4.40 | 6,315 | 40 | 2.5 |
| Loans | | | | | | |
| Domestic Offices | 22,955 | 271 | 4.69 | 21,333 | 218 | 4.0 |
| Foreign Offices | 10,561 | 121 | 4.53 | 9,939 | 72 | 2.8 |
| Non-Margin Loans | 33,516 | 392 | 4.64 | 31,272 | 290 | 3.6 |
| Securities | | | | | | |
| U.S. Government Obligations | 228 | 2 | 3.55 | 450 | 3 | 2.6 |
| U.S. Government Agency Obligations | 3,956 | 41 | 4.19 | 3,560 | 30 | 3.3 |
| Obligations of States and | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Political Subdivisions | 231 | 4 | 6.59 | 227 | 4 | 8.2 |
| Other Securities | 21,227 | 224 | 4.23 | 18,137 | 162 | 3.5 |
| Trading Securities | 3,361 | 38 | 4.49 | 1,587 | 11 | 2.8 |
| Total Securities | 29,003 | 309 | 4.27 | 23,961 | 210 | 3.5 |
| Total Interest-Earning Assets | 82,005 | 878 | 4.25% | 79,407 | 637 | 3.1 |
| Allowance for Credit Losses | (562) | | | (592) | | |
| Cash and Due from Banks | 2,974 | | | 3,027 | | |
| Other Assets | 16,493 | | | 15,513 | | |
| TOTAL ASSETS | $ 100,910 | | | $ 97,355 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-Bearing Deposits | | | | | | |
| Money Market Rate Accounts | $ 6,827 | $ 30 | 1.74% | $ 6,474 | $ 13 | 0.8 |
| Savings | 8,637 | 27 | 1.23 | 9,296 | 16 | 0.7 |
| Certificates of Deposit $100,000 & Over | 3,137 | 28 | 3.56 | 3,640 | 14 | 1.5 |
| Other Time Deposits | 1,529 | 11 | 2.84 | 934 | 4 | 1.6 |
| Foreign Offices | 25,887 | 152 | 2.33 | 25,227 | 92 | 1.4 |
| Total Interest-Bearing Deposits | 46,017 | 248 | 2.14 | 45,571 | 139 | 1.2 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 1,245 | 9 | 2.96 | 1,572 | 4 | 1.1 |
| Other Borrowed Funds | 1,716 | 13 | 3.10 | 2,416 | 9 | 1.5 |
| Payables to Customers and Broker-Dealers | 5,714 | 35 | 2.41 | 5,785 | 14 | 0.9 |
| Long-Term Debt | 7,568 | 73 | 3.81 | 6,083 | 35 | 2.2 |
| Total Interest-Bearing Liabilities | 62,260 | 378 | 2.41% | 61,427 | 201 | 1.3 |
| Noninterest-Bearing Deposits | 15,815 | | | 14,576 | | |
| Other Liabilities | 13,271 | | | 12,489 | | |
| Common Shareholders' Equity | 9,564 | | | 8,863 | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 100,910 | | | $ 97,355 | | |
| Net Interest Earnings and Interest Rate Spread | | $ 500 | 1.84% | | $ 436 | 1.8 |
| Net Yield on Interest-Earning Assets | | | 2.42% | | | 2.1 |

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THE BANK OF NEW YORK COMPANY, INC.
Average Balances and Rates on a Taxable Equivalent Basis
(Dollars in millions)

| | For the nine months ended September 30, 2005 | For the nine months ended September 30, 200 |
|---|---|---|

| | Average Balance | Interest | Average Rate | Average Balance | Interest | Avera Rate |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Interest-Bearing Deposits in Banks (primarily foreign) | $ 9,207 | $ 206 | 2.99% | $11,960 | $ 224 | 2.5 |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 4,813 | 102 | 2.82 | 6,964 | 53 | 1.0 |
| Margin Loans | 6,380 | 188 | 3.94 | 6,330 | 108 | 2.2 |
| Loans | | | | | | |
| Domestic Offices | 22,606 | 760 | 4.50 | 21,547 | 483 | 2.9 |
| Foreign Offices | 10,336 | 322 | 4.17 | 9,364 | 197 | 2.8 |
| Non-Margin Loans | 32,942 | 1,082 | 4.39 | 30,911 | 680 | 2.9 |
| Securities | | | | | | |
| U.S. Government Obligations | 289 | 7 | 3.23 | 456 | 8 | 2.4 |
| U.S. Government Agency Obligations | 3,690 | 110 | 3.97 | 3,955 | 98 | 3.2 |
| Obligations of States and Political Subdivisions | 214 | 11 | 7.03 | 236 | 13 | 7.2 |
| Other Securities | 20,449 | 617 | 4.02 | 18,136 | 474 | 3.4 |
| Trading Securities | 3,084 | 98 | 4.30 | 2,139 | 34 | 2.1 |
| Total Securities | 27,726 | 843 | 4.06 | 24,922 | 627 | 3.3 |
| Total Interest-Earning Assets | 81,068 | 2,421 | 3.99% | 81,087 | 1,692 | 2.7 |
| Allowance for Credit Losses | (578) | | | (633) | | |
| Cash and Due from Banks | 3,342 | | | 2,947 | | |
| Other Assets | 16,379 | | | 15,728 | | |
| TOTAL ASSETS | $100,211 | | | $ 99,129 | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| Interest-Bearing Deposits | | | | | | |
| Money Market Rate Accounts | $ 6,939 | $ 77 | 1.49% | $ 6,648 | $ 36 | 0.7 |
| Savings | 8,824 | 72 | 1.09 | 9,267 | 47 | 0.6 |
| Certificates of Deposit $100,000 & Over | 3,028 | 70 | 3.09 | 3,847 | 39 | 1.3 |
| Other Time Deposits | 1,101 | 20 | 2.37 | 967 | 11 | 1.5 |
| Foreign Offices | 25,896 | 413 | 2.13 | 25,874 | 251 | 1.3 |
| Total Interest-Bearing Deposits | 45,788 | 652 | 1.90 | 46,603 | 384 | 1.1 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 1,262 | 23 | 2.44 | 1,599 | 10 | 0.8 |
| Other Borrowed Funds | 1,831 | 33 | 2.43 | 2,400 | 27 | 1.5 |
| Payables to Customers and Broker-Dealers | 6,025 | 88 | 1.95 | 6,521 | 38 | 0.7 |
| Long-Term Debt | 7,223 | 187 | 3.42 | 6,143 | 95 | 2.0 |
| Total Interest-Bearing Liabilities | 62,129 | 983 | 2.12% | 63,266 | 554 | 1.1 |
| Noninterest-Bearing Deposits | 15,533 | | | 14,465 | | |
| Other Liabilities | 13,152 | | | 12,701 | | |
| Common Shareholders' Equity | 9,397 | | | 8,697 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $100,211 | | | $99,129 | | |
| Net Interest Earnings and Interest Rate Spread | | $ 1,438 | 1.87% | | $ 1,138 | 1.6 |
| Net Yield on Interest-Earning Assets | | | 2.37% | | | 1.8 |



OTHER DEVELOPMENTS

In July 2005, the Company acquired the bond administration business of Marshall & Ilsley Trust Company N.A., and M&I Marshall & Ilsley Bank (together, "M&I"), where they act as bond trustee, paying/fiscal agent, master trustee, transfer agent and/or registrar. The transaction involves the acquisition of approximately 560 bond trusteeships and agency appointments, representing $4.8 billion of principal debt outstanding for an estimated 225 clients.

In August 2005, the Company and Nordea, the leading financial services provider in the Nordic region, have entered into a strategic agreement to provide global custody and selected related services to Nordea's institutional clients in the Nordic and Baltic Sea regions. The scope of the agreement involves approximately EUR 240 billion of assets, which represent about half of Nordea's EUR 500 billion assets under custody.

In August 2005, the Company announced a strategic arrangement with IL&FS Trust Company Limited ("ITCL"), a leading provider of trust and fiduciary services in India. The arrangement between the two organizations will provide Indian issuers with access to the Company's global network, a comprehensive array of services to the international capital markets, and leading-edge technology capabilities. Under the arrangement, ITCL will perform corporate trust services in India, and the Company will provide offshore services.

In October 2005, the Company announced a marketing alliance with National Australia Bank ("National"). The arrangement will enable the Company to offer commission recapture services to National's custody clients in Australia and New Zealand. The alliance continues the strategic international build-out of the Company's transition management and commission recapture capabilities, which has included the opening of its Sydney office and acquisition of LJR.

On October 18, 2005, the Company announced its definitive agreement to acquire Alcentra Group Limited, an international asset management group focused on funds which invest in sub-investment grade debt. Alcentra's management team will retain a 20 percent shareholder interest. Alcentra has operations in London and Los Angeles and currently manages 15 different investment funds with over $6.2 billion of assets. The transaction is expected to close by year-end, pending regulatory approval and other customary conditions of closing.

Construction of the new data center in the mid-south region of the U.S. has been completed and the Company has obtained a certificate of occupancy. The data center is expected to be operating at two-thirds capacity in early

November and fully operational next year. The new data center will improve the geographic diversification and resilience of the Company's operations and will support the processing needs of the Company's institutional and retail customers.

The Company participates in unconsolidated investments that own real estate qualifying for low income housing tax credits based on Section 42 of the Internal Revenue Code. The Company's share of operating losses generated by these investments is recorded as other income. The Company has historically netted the tax credits generated by these investments against the related operating losses. The Company has reviewed this accounting method and has decided to record these tax credits as a reduction of income tax expense. To provide comparable historical information, the tables below show the restated prior period results. The resulting adjustments did not have an impact on net income.

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THE BANK OF NEW YORK COMPANY, INC.
Consolidated Statements of Income
(Dollars in millions, except per share amounts)
(Unaudited)

| | For the three months ended | | | | |
|---|---|---|---|---|---|
| | March 31, 2004 | June 30, 2004 | September 30, 2004 | December 31, 2004 | Year 2004 |
| **Interest Income** | | | | | |
| Loans | $ 118 | $ 272 | $ 290 | $ 401 | $1,080 |
| Margin Loans | 34 | 35 | 40 | 48 | 156 |
| Securities | | | | | |
| Taxable | 181 | 180 | 181 | 197 | 741 |
| Exempt from Federal Taxes | 10 | 10 | 10 | 11 | 40 |
| | 191 | 190 | 191 | 208 | 781 |
| Deposits in Banks | 68 | 78 | 77 | 81 | 305 |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 16 | 17 | 20 | 27 | 80 |
| Trading Assets | 14 | 9 | 11 | 17 | 51 |
| Total Interest Income | 441 | 601 | 629 | 782 | 2,453 |
| **Interest Expense** | | | | | |
| Deposits | 118 | 126 | 139 | 164 | 548 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 3 | 3 | 4 | 6 | 15 |
| Other Borrowed Funds | 9 | 9 | 9 | 25 | 52 |
| Customer Payables | 13 | 12 | 14 | 19 | 57 |
| Long-Term Debt | 30 | 30 | 35 | 41 | 136 |
| Total Interest Expense | 173 | 180 | 201 | 255 | 808 |
| **Net Interest Income** | 268 | 421 | 428 | 527 | 1,645 |
| Provision for Credit Losses | 12 | 10 | - | (7) | 15 |

| | | | | | |
|---|---|---|---|---|---|
| Net Interest Income After Provision for Credit Losses | 256 | 411 | 428 | 534 | 1,630 |
| **Noninterest Income** | | | | | |
| Servicing Fees | | | | | |
| Securities | 716 | 716 | 685 | 742 | 2,858 |
| Global Payment Services | 79 | 83 | 84 | 71 | 317 |
| | 795 | 799 | 769 | 813 | 3,175 |
| Private Client Services and Asset Management Fees | 108 | 113 | 113 | 115 | 448 |
| Service Charges and Fees | 96 | 93 | 98 | 98 | 385 |
| Foreign Exchange and Other Trading Activities | 106 | 100 | 67 | 90 | 364 |
| Securities Gains | 33 | 12 | 14 | 18 | 78 |
| Other | 82 | 39 | 38 | 42 | 200 |
| Total Noninterest Income | 1,220 | 1,156 | 1,099 | 1,176 | 4,650 |
| **Noninterest Expense** | | | | | |
| Salaries and Employee Benefits | 574 | 570 | 564 | 617 | 2,324 |
| Net Occupancy | 81 | 72 | 77 | 75 | 305 |
| Furniture and Equipment | 51 | 51 | 51 | 51 | 204 |
| Clearing | 48 | 44 | 39 | 45 | 176 |
| Sub-custodian Expenses | 22 | 22 | 21 | 22 | 87 |
| Software | 49 | 50 | 52 | 43 | 193 |
| Communications | 24 | 23 | 22 | 23 | 93 |
| Amortization of Intangibles | 8 | 8 | 9 | 9 | 34 |
| Other | 156 | 172 | 164 | 212 | 706 |
| Total Noninterest Expense | 1,013 | 1,012 | 999 | 1,097 | 4,122 |
| Income Before Income Taxes | 463 | 555 | 528 | 613 | 2,158 |
| Income Taxes | 99 | 184 | 174 | 262 | 718 |
| **Net Income** | $ 364 | $ 371 | $ 354 | $ 351 | $1,440 |
| **Per Common Share Data:** | | | | | |
| Basic Earnings | $ 0.47 | $ 0.48 | $ 0.46 | $ 0.45 | $ 1.87 |
| Diluted Earnings | 0.47 | 0.48 | 0.46 | 0.45 | 1.85 |
| Cash Dividends Paid | 0.19 | 0.20 | 0.20 | 0.20 | 0.79 |
| Diluted Shares Outstanding | 778 | 779 | 778 | 780 | 778 |

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THE BANK OF NEW YORK COMPANY, INC.
Consolidated Statements of Income
(Dollars in millions, except per share amounts)
(Unaudited)

| | For the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| **Interest Income** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Loans | $ 1,080 | $ 1,187 | $ 1,452 | $ 2,239 | $ 2,889 |
| Margin Loans | 156 | 86 | 12 | 32 | 21 |
| Securities | | | | | |
| Taxable | 741 | 651 | 639 | 463 | 323 |
| Exempt from Federal Income Taxes | 40 | 48 | 61 | 74 | 63 |
| | 781 | 699 | 700 | 537 | 386 |
| Deposits in Banks | 305 | 150 | 133 | 252 | 273 |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 80 | 79 | 51 | 159 | 277 |
| Trading Assets | 51 | 129 | 259 | 401 | 531 |
| Total Interest Income | 2,453 | 2,330 | 2,607 | 3,620 | 4,377 |
| Interest Expense | | | | | |
| Deposits | 548 | 507 | 644 | 1,392 | 2,011 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 15 | 13 | 29 | 103 | 153 |
| Other Borrowed Funds | 52 | 21 | 65 | 163 | 139 |
| Customer Payables | 57 | 30 | 2 | 4 | - |
| Long-Term Debt | 136 | 150 | 202 | 277 | 317 |
| Total Interest Expense | 808 | 721 | 942 | 1,939 | 2,620 |
| Net Interest Income | 1,645 | 1,609 | 1,665 | 1,681 | 1,757 |
| Provision for Credit Losses | 15 | 155 | 685 | 375 | 105 |
| Net Interest Income After Provision for Credit Losses | 1,630 | 1,454 | 980 | 1,306 | 1,652 |
| Noninterest Income | | | | | |
| Servicing Fees | | | | | |
| Securities | 2,858 | 2,412 | 1,896 | 1,775 | 1,650 |
| Global Payment Services | 317 | 314 | 296 | 291 | 265 |
| | 3,175 | 2,726 | 2,192 | 2,066 | 1,915 |
| Private Client Services and Asset Management Fees | 448 | 384 | 344 | 314 | 296 |
| Service Charges and Fees | 385 | 375 | 357 | 352 | 360 |
| Foreign Exchange and Other Trading Activities | 364 | 327 | 234 | 338 | 261 |
| Securities Gains | 78 | 35 | (118) | 154 | 150 |
| Other | 200 | 149 | 124 | 337 | 120 |
| Total Noninterest Income | 4,650 | 3,996 | 3,133 | 3,561 | 3,102 |
| Noninterest Expense | | | | | |
| Salaries and Employee Benefits | 2,324 | 2,002 | 1,581 | 1,593 | 1,493 |
| Net Occupancy | 305 | 261 | 230 | 233 | 184 |
| Furniture and Equipment | 204 | 185 | 138 | 178 | 108 |
| Clearing | 176 | 154 | 124 | 61 | 36 |
| Sub-custodian Expenses | 87 | 74 | 70 | 62 | 68 |
| Software | 193 | 170 | 115 | 90 | 66 |
| Communications | 93 | 92 | 65 | 86 | 56 |
| Amortization of Goodwill and Intangibles | 34 | 25 | 8 | 112 | 115 |
| Merger and Integration Costs | - | 96 | - | - | - |
| Other | 706 | 639 | 420 | 404 | 384 |
| Total Noninterest Expense | 4,122 | 3,698 | 2,751 | 2,819 | 2,510 |

| | | | | | |
|---|---|---|---|---|---|
| Income Before Income Taxes | 2,158 | 1,752 | 1,362 | 2,048 | 2,244 |
| Income Taxes | 718 | 595 | 460 | 705 | 815 |
| Net Income | $ 1,440 | $ 1,157 | $ 902 | $ 1,343 | $ 1,429 |
| Per Common Share Data: | | | | | |
| Basic Earnings | $ 1.87 | $ 1.54 | $ 1.25 | $ 1.84 | $ 1.95 |
| Diluted Earnings | 1.85 | 1.52 | 1.24 | 1.81 | 1.92 |
| Cash Dividends Paid | 0.79 | 0.76 | 0.76 | 0.72 | 0.66 |
| Diluted Shares Outstanding | 778 | 759 | 728 | 741 | 745 |

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Other 2004 Developments

Other First Quarter Developments in 2004 are summarized in the following table:

(In millions)

| Item | Income Statement Caption | Pre-Tax Income | Tax | After-Tax Income |
|---|---|---|---|---|
| Net Interest Income | | | | |
| SFAS 13 cumulative lease adjustment - (leasing portfolio) | Net Interest Income | $ (145) | $ 113 | $ (32) |
| Noninterest Income | | | | |
| Gain on sale of Wing Hang | Other Income | 48 | (21) | 27 |
| Gain on sponsor fund investments | Securities Gains | 19 | (7) | 12 |
| Subtotal-Noninterest Income | | 67 | (28) | 39 |
| Noninterest Expense | | | | |
| Severance tied to relocations | Salaries and Employee Benefits | (10) | 4 | (6) |
| Lease terminations | Net Occupancy | (8) | 3 | (5) |
| Subtotal-Noninterest Expense | | (18) | 7 | (11) |
| Total | | $ (96) | $ 92 | $ (4) |

Net interest income in the first quarter of 2004 included an after-tax charge of $32 million resulting from a cumulative adjustment to the leasing portfolio, which was triggered under Statement of Financial Accounting Standards No. 13 "Accounting for Leases" ("SFAS 13") by the combination of a reduction in state and local taxes and a restructuring of the lease portfolio completed in the first quarter. The SFAS 13 adjustment impacts the timing of lease income reported by the Company, and resulted in a reduction in net interest income of $145 million, offset by tax benefits of $113 million.

Noninterest income in the first quarter of 2004 included a $27 million after-tax gain on the sale of a portion of the Company's interest in Wing Hang Bank Limited ("Wing Hang"), a Hong Kong based bank, which was recorded in other income, and $19 million ($12 million after-tax) of higher than anticipated securities gains in the first quarter resulting from realized gains on sponsor fund investments in Kinkos, Inc., Bristol West Holdings, Inc., Willis Group Holdings, Ltd., and True Temper Sports, Inc.

The Company took several actions in the first quarter of 2004 associated with its long-term cost reduction initiatives impacting noninterest expense. These actions included an after-tax severance charge of $6 million related to staff reductions tied to job relocations and a $5 million after-tax charge for terminating high cost leases associated with the staff redeployments.

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FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS

The information presented with respect to, among other things, earnings and revenue outlook, projected business growth, the outcome of legal, regulatory and investigatory proceedings, future loan losses, and the Company's plans, objectives and strategies is forward-looking information. Forward-looking statements are the Company's current estimates or expectations of future events or future results.

The Company, or its executive officers and directors on behalf of the Company, may from time to time make forward-looking statements. When used in this report, any press release or oral statements, the words "estimate, " "forecast," "project," "anticipate," "target," "expect," "intend," "think," "continue," "seek," "believe," "plan," "goal," "could," "should," "may," "will," "strategy," and words of similar meaning are intended to identify forward-looking statements in addition to statements specifically identified as forward-looking statements.

Forward-looking statements, including the Company's discussions and projections of future results of operations and discussions of future plans contained in Management's Discussion and Analysis and elsewhere in this Form 10-Q, are based on management's current expectations and assumptions and are subject to risks and uncertainties, some of which are discussed herein, that could cause actual results to differ materially from projected results. Forward-looking statements could be affected by a number of factors, some of which by their nature are dynamic and subject to rapid and possibly abrupt changes which the Company is necessarily unable to predict with accuracy, including:

General Business and Economic Conditions and Internal Operations - Disruptions in general economic activity in the United States or abroad to the Company's operational functions or to financial market settlement functions. The economic and other effects of the continuing threat of terrorist activity following the WTC disaster and subsequent U.S. military actions. Changes in customer credit quality, future changes in interest rates, actual and assumed rates of return on pension assets, inflation, rising employee benefit expenses, the effectiveness of management's efforts to control expenses, general credit quality, the levels of economic, capital market, and merger and acquisition activity, consumer behavior, government monetary policy, competition, credit, market and operating risk, and loan demand. The performance of the domestic economy, international economic markets, technological, regulatory and structural changes in the Company's industry, market demand for the Company's products and services, continuation of the trend to investment management outsourcing, the savings rate of individuals, growth of worldwide financial assets, continued globalization of investment activity, and future global political, economic, business and market conditions. Variations in management projections, methodologies used by management to set adequate reserve levels for expected and contingent liabilities, evaluate risk or market forecasts and the actions that management could take in response to these changes.

Continuation of favorable global trends - The Company's businesses benefit from certain global trends, such as the growth of financial assets, creation of new securities, financial services industry consolidation, rapid technological change, globalization of investment activities, structural changes to financial markets, shortened settlement cycles, straight-through processing requirements, and increased demand for outsourcing. These long-term trends all increase the demand for the Company's products and services around the world. However, in the near term, uncertainty surrounding recently adopted regulations and potential legislative and regulatory changes in the securities industry, as well as investigations by various federal and state regulatory agencies, the Department of Justice and state attorney generals, could have an adverse effect on investment activity and the Company.

Acquisitions - Lower than expected performance or higher than expected costs in connection with acquisitions and integration of acquired businesses,



acquisitions of businesses with expensive technology components, changes in relationships with customers, entering new and unfamiliar markets, incurring undiscovered liabilities, incorrectly valuing acquisition candidates, the ability to satisfy customer requirements, retain customers and realize the growth opportunities of acquired businesses and management's ability to achieve efficiency goals.

Competition - The Company is subject to increased competition from other domestic and international banks and financial service companies such as trading firms, broker-dealers and asset managers as well as from unregulated financial services organizations. It is also subject to rapid technological changes requiring significant and ongoing investments in technology to develop competitive new products and services or adopt new technologies. Technological advances which result in lower transaction costs may adversely impact the Company's revenues.

Interest rates - The levels of market interest rates, the shape of the yield curve and the direction of interest rate changes all affect net interest income that the Company earns in many different businesses.

Volatility of currency markets - The degree of volatility in foreign exchange rates can affect the amount of foreign exchange trading revenue. While most of the Company's foreign exchange revenue is derived from its securities servicing client base, activity levels are generally higher when there is more volatility. Therefore, the Company benefits from currency volatility.

Dependence on fee-based business - Revenues reflect changes in the volume of financial transactions in the United States and abroad, the level of capital market activity affects processing revenues, changes in asset values affect fees which are based on the value of assets under custody and management, the level of cross-border investing, investor sentiment, the pace of worldwide pension reform and the concomitant creation of new pools of pension assets, the level of debt issuance and currency exchange rate volatility all impact the Company's revenues.

Access to liquidity - Limitations on the Company's access to the funds markets, arising from a loss of confidence of debt purchasers or counterparties in the funds markets in general or the Company in particular, it would adversely affect the Company.

Operational risk and business continuity - The Company continually assesses and monitors operational risk in its businesses. Operational risk is mitigated by formal risk management oversight within the Company as well as by automation, standardized operating procedures, segregation of duties and controls, timely confirmation and reconciliation procedures and insurance. In addition, the Company provides for disaster and business recovery planning for events that could damage the Company's physical facilities, cause delay or disruptions to operational functions, including telecommunications networks, or impair the Company's clients, vendors and counterparties. Events beyond those contemplated in the plans could negatively affect the Company.

Reputational and legal risk - Adverse publicity and damage to the Company's reputation arising from its failure or perceived failure to comply with legal and regulatory requirements, financial reporting irregularities involving other large and well known companies and regulatory investigations of the mutual fund industry could affect the Company's ability to attract and retain customers, maintain access to the capital markets or result in suits, enforcement actions, fines and penalties.

Legislative and regulatory environment - Heightened regulatory scrutiny and increased sanctions, changes or potential changes in domestic and international legislation and regulation as well as domestic or international regulatory investigations impose compliance, legal, review and response costs and may allow additional competition, facilitate consolidation of competitors, or attract new competitors into the Company's businesses. The cost of geographically diversifying the Company's facilities to comply with regulatory

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mandates. The nature of any new capital accords to be adopted by the Basel Committee on Banking Supervision and implemented by the Federal Reserve.

Taxes - The U.S. Treasury and Internal Revenue Service have taken increasingly aggressive positions against certain corporate investment programs that either reduce or defer taxes. The Company believes that its historic investments have been carefully structured to comply with then current tax law, and received external legal and tax advice confirming the Company's treatment of the investments. Going forward, there may be fewer opportunities to participate in lease investing, tax credit programs and similar transactions that have benefited the Company in the past. This may adversely impact the Company's net interest income and effective tax rate.

The Company has entered into investments that produce synthetic fuel from coal byproducts. Section 29 of the Internal Revenue code provides a tax credit for these types of transactions. The amount of the credit is dependent on the amount of synthetic fuel produced by these investments. Synthetic fuel production can be impacted by mine, workforce, transportation, and weather conditions among other factors. The tax credits available under Section 29 of the Internal Revenue Code for the production and sale of synthetic fuel produced in any given year are phased out if the Reference Price of a barrel of oil for that year falls within a specified, inflation-adjusted price range.

The Company estimates that the 2005 phase-out would begin if the entire calendar year 2005 reference prices average above $52 (which corresponds to popularly published spot prices of $56) and the credit would be fully phased out at $65 (which corresponds to popularly published spot prices of $69).

Based on information available through October 31, 2005, the Company does not expect that further changes in the price of oil in the fourth quarter of 2005 should adversely impact its effective tax rate for 2005. If the reference price of a barrel of oil in future years exceeds the applicable phase-out threshold for those years, the tax credits generated by the synthetic fuel facilities in those years could be reduced or eliminated.

Acts of terrorism - Acts of terrorism could have a significant impact on the Company's business and operations. While the Company has in place business continuity and disaster recovery plans, acts of terrorism could still damage the Company's facilities and disrupt or delay normal operations, and have a similar impact on the Company's clients, suppliers, and counterparties. Acts of terrorism could also negatively impact the purchase of the Company's products and services to the extent they resulted in reduced capital markets activity or lower asset price levels.

Accounting Principles - Changes in generally accepted accounting principles in the United States that are applicable to the Company could have an impact on the Company's reported results of operations even though they do not have an economic impact on the Company's business.

* * *

This is not an exhaustive list and as a result of variations in any of these factors, actual results may differ materially from any forward-looking statements.

Forward-looking statements speak only as of the date they are made. The Company will not update forward-looking statements to reflect facts, assumptions, circumstances or events which have changed after a forward-looking statement was made.



## Government Monetary Policies

The Federal Reserve Board has the primary responsibility for United States 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.

## Competition

The businesses in which the Company operates are very competitive. Competition is provided by both unregulated and regulated financial services organizations, whose products and services span the local, national, and global markets in which the Company conducts operations.

A wide variety of domestic and foreign companies compete for processing services. For securities servicing and global payment services, international, national, and regional commercial banks, trust banks, investment banks, specialized processing companies, outsourcing companies, data processing companies, stock exchanges, and other business firms offer active competition. In the private client services and asset management markets, international, national, and regional commercial banks, standalone asset management companies, mutual funds, securities brokerage firms, insurance companies, investment counseling firms, and other business firms and individuals actively compete for business. Commercial banks, savings banks, savings and loan associations, and credit unions actively compete for deposits, and money market funds and brokerage houses offer deposit-like services. These institutions, as well as consumer and commercial finance companies, national retail chains, factors, insurance companies and pension trusts, are important competitors for various types of loans. Issuers of commercial paper compete actively for funds and reduce demand for bank loans.

WEBSITE INFORMATION

The Company makes available on its website, www.bankofny.com:

* All of its SEC filings, including annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, SEC Forms 3, 4 and 5 and its proxy statement as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC,
* Its earnings releases and management conference calls and presentations, and
* Its corporate governance guidelines and the charters of the audit and examining, compensation and organization, and nominating and governance committees of its Board of Directors.

The corporate governance guidelines and committee charters are available in print to any shareholder who requests it. Requests should be sent to The Bank of New York Company, Inc., Corporate Communications, One Wall Street, NY, NY 10286.

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THE BANK OF NEW YORK COMPANY, INC.
Consolidated Balance Sheets
(Dollars in millions, except per share amounts)
(Unaudited)

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Assets | | |
| Cash and Due from Banks | $ 3,493 | $ 3,886 |
| Interest-Bearing Deposits in Banks | 7,058 | 8,192 |
| Securities | | |
| Held-to-Maturity (fair value of $2,048 in 2005 and $1,873 in 2004) | 2,071 | 1,886 |
| Available-for-Sale | 24,159 | 21,916 |
| Total Securities | 26,230 | 23,802 |
| Trading Assets at Fair Value | 6,292 | 4,627 |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 3,572 | 5,708 |
| Loans (less allowance for loan losses of $561 in 2005 and $591 in 2004) | 41,582 | 35,190 |
| Premises and Equipment | 1,040 | 1,097 |
| Due from Customers on Acceptances | 175 | 137 |
| Accrued Interest Receivable | 357 | 285 |
| Goodwill | 3,613 | 3,477 |

| | | |
|---|---|---|
| Intangible Assets | 813 | 793 |
| Other Assets | 7,541 | 7,335 |
| Total Assets | $ 101,766 | $ 94,529 |
| **Liabilities and Shareholders' Equity** | | |
| Deposits | | |
| Noninterest-Bearing (principally domestic offices) | $ 16,289 | $ 17,442 |
| Interest-Bearing | | |
| Domestic Offices | 18,966 | 18,692 |
| Foreign Offices | 25,822 | 22,587 |
| Total Deposits | 61,077 | 58,721 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 3,349 | 1,205 |
| Trading Liabilities | 3,000 | 2,873 |
| Payables to Customers and Broker-Dealers | 8,103 | 8,664 |
| Other Borrowed Funds | 1,270 | 533 |
| Acceptances Outstanding | 176 | 139 |
| Accrued Taxes and Other Expenses | 4,552 | 4,452 |
| Accrued Interest Payable | 132 | 113 |
| Other Liabilities (including allowance for lending-related commitments of $146 in 2005 and $145 in 2004) | 2,970 | 2,418 |
| Long-Term Debt | 7,529 | 6,121 |
| Total Liabilities | 92,158 | 85,239 |
| Shareholders' Equity | | |
| Common Stock-par value $7.50 per share, authorized 2,400,000,000 shares, issued 1,048,772,989 shares in 2005 and 1,044,841,603 shares in 2004 | 7,866 | 7,836 |
| Additional Capital | 1,865 | 1,790 |
| Retained Earnings | 6,846 | 6,162 |
| Accumulated Other Comprehensive Income | (107) | (6) |
| | 16,470 | 15,782 |
| Less: Treasury Stock (278,556,517 shares in 2005 and 266,720,629 shares in 2004), at cost | 6,852 | 6,492 |
| Loan to ESOP (305,261 shares in 2005), at cost | 10 | - |
| Total Shareholders' Equity | 9,608 | 9,290 |
| Total Liabilities and Shareholders' Equity | $ 101,766 | $ 94,529 |

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THE BANK OF NEW YORK COMPANY, INC.
Consolidated Statements of Income
(Dollars in millions, except per share amounts)
(Unaudited)

For the three　　For the nine

| | months ended September 30, | | months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 200 |
| **Interest Income** | | | | |
| Loans | $ 392 | $ 290 | $1,082 | $ 6 |
| Margin Loans | 71 | 40 | 188 | 1 |
| Securities | | | | |
| Taxable | 253 | 181 | 694 | 5 |
| Exempt from Federal Income Taxes | 10 | 10 | 30 | |
| | 263 | 191 | 724 | 5 |
| Deposits in Banks | 68 | 77 | 206 | 2 |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 38 | 20 | 102 | |
| Trading Assets | 38 | 11 | 98 | |
| Total Interest Income | 870 | 629 | 2,400 | 1,6 |
| **Interest Expense** | | | | |
| Deposits | 248 | 139 | 652 | 3 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 9 | 4 | 23 | |
| Other Borrowed Funds | 13 | 9 | 33 | |
| Customer Payables | 35 | 14 | 88 | |
| Long-Term Debt | 73 | 35 | 187 | |
| Total Interest Expense | 378 | 201 | 983 | 5 |
| **Net Interest Income** | 492 | 428 | 1,417 | 1,1 |
| Provision for Credit Losses | 10 | - | 5 | |
| Net Interest Income After Provision for Credit Losses | 482 | 428 | 1,412 | 1,0 |
| **Noninterest Income** | | | | |
| Servicing Fees | | | | |
| Securities | 806 | 684 | 2,333 | 2,1 |
| Global Payment Services | 75 | 85 | 226 | 2 |
| | 881 | 769 | 2,559 | 2,3 |
| Private Client Services and Asset Management Fees | 120 | 113 | 363 | 3 |
| Service Charges and Fees | 93 | 98 | 288 | 2 |
| Foreign Exchange and Other Trading Activities | 93 | 67 | 292 | 2 |
| Securities Gains | 15 | 14 | 50 | |
| Other | 46 | 38 | 130 | 1 |
| Total Noninterest Income | 1,248 | 1,099 | 3,682 | 3,4 |
| **Noninterest Expense** | | | | |
| Salaries and Employee Benefits | 644 | 564 | 1,902 | 1,7 |
| Net Occupancy | 79 | 77 | 239 | 2 |
| Furniture and Equipment | 52 | 51 | 155 | 1 |
| Clearing | 49 | 39 | 137 | 1 |
| Sub-custodian Expenses | 25 | 21 | 72 | |
| Software | 54 | 52 | 162 | 1 |
| Communications | 24 | 22 | 69 | |

| | | | | |
|---|---|---|---|---|
| Amortization of Intangibles | 10 | 9 | 28 | |
| Other | 198 | 164 | 571 | 4 |
| Total Noninterest Expense | 1,135 | 999 | 3,335 | 3,0 |
| Income Before Income Taxes | 595 | 528 | 1,759 | 1,5 |
| Income Taxes | 206 | 174 | 593 | 4 |
| Net Income | $ 389 | $ 354 | $1,166 | $1,0 |
| Per Common Share Data: | | | | |
| Basic Earnings | $ 0.51 | $ 0.46 | $ 1.52 | $ 1. |
| Diluted Earnings | 0.51 | 0.46 | 1.51 | 1. |
| Cash Dividends Paid | 0.21 | 0.20 | 0.61 | 0. |
| Diluted Shares Outstanding | 769 | 778 | 773 | 7 |

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THE BANK OF NEW YORK COMPANY, INC.
Consolidated Statement of Changes in Shareholders' Equity
For the nine months ended September 30, 2005
(Dollars in millions)
(Unaudited)

| | | |
|---|---|---|
| Common Stock | | |
| Balance, January 1 | | $ 7,836 |
| Issuances in Connection with Employee Benefit Plans | | 30 |
| Balance, September 30 | | 7,866 |
| Additional Capital | | |
| Balance, January 1 | | 1,790 |
| Issuances in Connection with Employee Benefit Plans | | 114 |
| Stock Rights Redemption | | (39) |
| Balance, September 30 | | 1,865 |
| Retained Earnings | | |
| Balance, January 1 | | 6,162 |
| Net Income | $ 1,166 | 1,166 |
| Cash Dividends on Common Stock | | (482) |
| Balance, September 30 | | 6,846 |
| Accumulated Other Comprehensive Income | | |
| Balance, January 1 | | (6) |
| Change in Fair Value of Securities Available-for-Sale, Net of Taxes of $(51) | (81) | (81) |
| Reclassification Adjustment, Net of Taxes of $5 | 7 | 7 |
| Foreign Currency Translation Adjustment, Net of Taxes of $(8) | (24) | (24) |
| Net Unrealized Derivative loss on Cash Flow Hedges, Net of Taxes of $(2) | (1) | (1) |
| Minimum Pension Liability Adjustment, | | |

| | | |
|---|---|---|
| Net of Taxes of $(1) | (2) | (2) |
| Balance, September 30 | | (107) |
| Total Comprehensive Income | $ 1,065 | |
| Less Treasury Stock | | |
| Balance, January 1 | | 6,492 |
| Issued | | (36) |
| Acquired | | 396 |
| Balance, September 30 | | 6,852 |
| Less Loan to ESOP | | |
| Balance, January 1 | | - |
| Loan to ESOP | | 10 |
| Balance, September 30 | | 10 |
| Total Shareholders' Equity, September 30, 2005 | | $ 9,608 |

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THE BANK OF NEW YORK COMPANY, INC.
Consolidated Statements of Cash Flows
(Dollars in millions)
(Unaudited)

| | For the nine months ended September 30, 2005 | 2004 |
|---|---|---|
| Operating Activities | | |
| Net Income | $ 1,166 | $ 1,089 |
| Adjustments to Determine Net Cash Attributable to Operating Activities: | | |
| Provision for Credit Losses and Losses on Other Real Estate | 5 | 22 |
| Depreciation and Amortization | 403 | 367 |
| Deferred Income Taxes | 236 | 208 |
| Securities Gains | (50) | (59) |
| Change in Trading Activities | (1,815) | 1,753 |
| Change in Accruals and Other, Net | (152) | 35 |
| Net Cash (Used for) Provided by Operating Activities | (207) | 3,415 |
| Investing Activities | | |
| Change in Interest-Bearing Deposits in Banks | 713 | (1,337) |
| Change in Margin Loans | (262) | (199) |
| Purchases of Securities Held-to-Maturity | (508) | (1,224) |
| Paydowns of Securities Held-to-Maturity | 277 | 154 |
| Maturities of Securities Held-to-Maturity | 38 | 6 |
| Purchases of Securities Available-for-Sale | (13,018) | (10,532) |

| | | |
|---|---|---|
| Sales of Securities Available-for-Sale | 3,578 | 3,278 |
| Paydowns of Securities Available-for-Sale | 5,103 | 6,177 |
| Maturities of Securities Available-for-Sale | 1,787 | 1,708 |
| Net Principal Received (Disbursed) on Loans to Customers | (6,687) | (1,055) |
| Sales of Loans and Other Real Estate | 141 | 28 |
| Change in Federal Funds Sold and Securities Purchased Under Resale Agreements | 2,136 | (249) |
| Purchases of Premises and Equipment | (71) | (222) |
| Acquisitions, Net of Cash Acquired | (257) | (100) |
| Proceeds from the Sale of Premises and Equipment | - | 8 |
| Other, Net | 51 | 23 |
| Net Cash Used for Investing Activities | (6,979) | (3,536) |
| Financing Activities | | |
| Change in Deposits | 3,459 | 2,098 |
| Change in Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 2,144 | 135 |
| Change in Payables to Customers and Broker-Dealers | (560) | (2,460) |
| Change in Other Borrowed Funds | 694 | 137 |
| Proceeds from the Issuance of Long-Term Debt | 1,589 | 148 |
| Repayments of Long-Term Debt | (102) | (126) |
| Issuance of Common Stock | 140 | 155 |
| Treasury Stock Acquired | (406) | (119) |
| Cash Dividends Paid | (482) | (455) |
| Net Cash Provided by (Used for) Financing Activities | 6,476 | (487) |
| Effect of Exchange Rate Changes on Cash | 317 | (178) |
| Change in Cash and Due From Banks | (393) | (786) |
| Cash and Due from Banks at Beginning of Period | 3,886 | 3,843 |
| Cash and Due from Banks at End of Period | $ 3,493 | $ 3,057 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash Paid During the Period for: | | |
| Interest | $ 965 | $ 462 |
| Income Taxes | 273 | 313 |
| Noncash Investing Activity (Primarily Foreclosure of Real Estate) | - | 1 |

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THE BANK OF NEW YORK COMPANY, INC.
Notes to Consolidated Financial Statements

1. General

The accounting and reporting policies of The Bank of New York Company, Inc., a financial holding company, and its consolidated subsidiaries (the "Company") conform with generally accepted accounting principles and general practice within the banking industry. Such policies are consistent with those applied in the preparation of the Company's annual financial statements.

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.

## 2. Accounting Changes and New Accounting Pronouncements

The Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," in 1995. At that time, as permitted by the standard, the Company elected to continue to apply the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and accounted for the options granted to employees using the intrinsic value method, under which no expense is recognized for stock options because they were granted at the stock price on the grant date and therefore have no intrinsic value.

On January 1, 2003, the Company adopted the fair value method of accounting for its options under SFAS 123 as amended by SFAS 148 "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS 148 permits three different methods of adopting fair value: (1) the prospective method, (2) the modified prospective method, and (3) the retroactive restatement method. Under the prospective method, options issued after January 1, 2003 are expensed while all options granted prior to January 1, 2003 are accounted for under APB 25 using the intrinsic value method. Consistent with industry practice, the Company elected the prospective method of adopting fair value accounting.

During the nine months ended September 30, 2005, approximately 6 million options were granted. In the third quarter and nine months of 2005, the Company recorded $14 million and $37 million of stock option expense.

The retroactive restatement method requires the Company's financial statements to be restated as if fair value accounting had been adopted in 1995. The following table discloses the pro forma effects on the Company's net income and earnings per share as if the retroactive restatement method had been adopted.

| (Dollars in millions, except per share amounts) | Third Quarter 2005 | Third Quarter 2004 | Year-to-date 2005 | Year-to-date 2004 |
|---|---|---|---|---|
| Reported net income | $ 389 | $ 354 | $1,166 | $1,089 |
| Stock based employee compensation costs, using prospective method, net of tax | 8 | 6 | 22 | 17 |
| Stock based employee compensation costs, using retroactive restatement method, net of tax | (8) | (14) | (29) | (44) |
| Pro forma net income | $ 389 | $ 346 | $1,159 | $1,062 |
| Reported diluted earnings per share | $ 0.51 | $ 0.46 | $ 1.51 | $ 1.40 |
| Impact on diluted earnings per share | - | (0.01) | (0.01) | (0.03) |
| Pro forma diluted earnings per share | $ 0.51 | $ 0.45 | $ 1.50 | $ 1.37 |

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The fair value of options granted in 2005 and 2004 were estimated at the grant date using the following weighted average assumptions:

| | Third Quarter 2005 | Third Quarter 2004 | Year-to-date 2005 | Year-to-date 2004 |
|---|---|---|---|---|
| Dividend Yield | * | 3.00% | 2.77% | 2.50% |
| Expected Volatility | * | 25.06 | 25.21 | 25.00 |
| Risk Free Interest Rates | * | 3.35 | 4.18 | 2.61 |
| Expected Options Lives | * | 5 | 5 | 5 |

* There were no stock options granted in the third quarter of 2005.

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004) ("SFAS 123(R)"), "Share-Based Payment", which is a revision of FASB Statement No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." SFAS 123(R) eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion No. 25 and requires that such transactions be accounted for using a fair value-based method. SFAS 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. In April 2005, the Securities and Exchange Commission ("SEC") issued a release that amends the compliance dates for SFAS 123(R). Under the SEC's new rule, the Company will be required to apply SFAS 123(R) as of January 1, 2006.

SFAS 123(R) may be adopted using one of two methods: (1) A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date. (2) A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption. The Company expects to adopt SFAS 123(R) using the "modified prospective" method.

The Company adopted the fair value method of accounting for stock-based compensation prospectively as of January 1, 2003. By January 1, 2006, the Company will be amortizing all of its unvested stock option grants. Certain of the Company's stock compensation grants vest when the employee retires. SFAS 123(R) will require the completion of expensing of new grants with this feature by the first date the employee is eligible to retire. Currently, the Company generally expenses these grants over their stated vesting period.

The Company is currently evaluating the impact of adopting SFAS 123(R).

On February 1, 2003, the Company adopted FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities". This interpretation requires a company that holds a variable interest in an entity to consolidate the entity if the company's interest in the variable interest entity ("VIE") is such that the company will absorb a majority of the VIE's expected losses and/or receives a majority of the entity's expected residual returns. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The consolidation requirements of FIN 46 applied immediately to VIEs created after January 31, 2003. Various amendments to FIN 46, including FIN 46(R), delayed the effective date for certain previously established entities until the first quarter of 2004. The adoption of FIN 46 and FIN 46(R) did not have a significant impact on the Company's results of operations or financial condition.

As of December 31, 2004, the Company had variable interests in 5 securitization trusts. These trusts are qualifying special-purpose entities, which are exempt from the consolidation requirements of FIN 46. See Footnote "Securitizations" in the 2004 Annual Report.

The most significant impact of FIN 46 and FIN 46(R) was to require that the trusts used to issue trust preferred securities be deconsolidated. As a result, the trust preferred securities no longer represent a minority interest. Under regulatory capital rules, minority interests count as Tier 1 Capital. The Company has $1,150 million of trust preferred securities outstanding.

On March 1, 2005, the Board of Governors of the Federal Reserve System (the "FRB") adopted a final rule that allows the continued limited inclusion of trust preferred securities in the Tier 1 capital of bank holding companies (BHCs). Under the final rule, the Company will be subject to a 15 percent limit in the amount of trust preferred securities that can be included in Tier 1 capital, net of goodwill, less any related deferred tax liability. Amounts in excess of these limits will continue to be included in Tier 2 capital. The final rule provides a five-year transition period, ending March 31, 2009, for application of quantitative limits. Under the transition rules, the Company expects all its trust preferred securities to continue to qualify as Tier 1 capital. Both the Company and the Bank are expected to remain "well capitalized" under the final rule. At the end of the transition period, the Company expects all its current trust preferred securities will continue to qualify as Tier 1 capital.

In May 2004, FASB issued FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP FAS 106-2"), which supersedes FSP FAS 106-1, in response to the December 2003 enactment of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act"). FSP FAS 106-2 provides guidance on the accounting for the effects of the Act for employers that sponsor postretirement health care plans that provide prescription drug benefits. The Company believes that its plans are eligible for the subsidy provided by the Act and adopted FSP FAS 106-2 in the third quarter of 2004 retroactive to January 1, 2004. The adoption of FSP FAS 106-2 did not have a significant impact on the Company's results of operations or financial position.

In September 2004, the FASB issued FASB Staff Position (FSP) EITF 03-1-1, which delaying the recognition and measurement provisions of EITF 03-1 pending the issuance of further implementation guidance. Such guidance was also issued in September 2004 in the form of proposed FSP EITF Issue No. 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1" (FSP EITF 03-1-a). At its June 2005 meeting, the FASB decided that they will issue proposed FSP EITF 03-1-a as final. The final FSP, to be re-titled FSP FAS 115-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments", requires that a) for each individual impaired security, a company assert its ability and intent to hold to recovery and to designate an expected recovery period in order to avoid recognizing an impairment charge through earnings, b) a company need not make such an assertion for minor impairments caused by changes in interest rate and sector spreads, c) the company must recognize an impairment charge on securities impaired as a result of interest rate and/or sector spreads immediately upon changing their assertion to an intent to sell such security, and d) defines when a change in a company's assertion for one security would not call into question assertions made for other impaired securities. The final FSP is expected to be issued in the fourth quarter of 2005 and would be effective for reporting periods beginning after December 15, 2005. The Company does not expect the adoption of the final standard will have a significant impact on its financial condition or results of operations.

The FASB has issued an exposure draft revising the accounting guidance under SFAS 13 surrounding leveraged leases. The exposure draft modifies existing interpretations of SFAS 13 and associated industry practice. As a result, a settlement of the tax matters associated with the Company's structured leasing investments (see "Commitments and Contingencies" footnote)



could result in a material one-time charge to earnings related to a change in the timing of the lease cash flows. However, an amount approximating this one-time charge would be recognized into income over the remaining term of the affected leases. The FASB has indicated it plans to issue a final pronouncement by the end of 2005 that would be effective for 2005.

In June 2005, the FASB ratified the consensus in EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF 04-5"), which provides guidance in determining whether a general partner controls a limited partnership. EITF 04-5 is effective for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified. The guidance in EITF 04-5 is effective after June 29, 2005. For general partners in all other limited partnerships, the guidance in this Issue is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The Company is currently evaluating the impact of adopting EITF 04-5.

In July 2005, the FASB issued an Exposure Draft of a proposed Interpretation, "Accounting for Uncertain Tax Positions". The proposed Interpretation clarifies the accounting for uncertain tax positions in accordance with FASB Statement No. 109, "Accounting for Income Taxes". The proposed Interpretation requires that a tax position meet a "probable recognition threshold" for the benefit of the uncertain tax position to be recognized in the financial statements. A tax position that fails to meet the probable recognition threshold will result in either reduction of current or deferred tax asset or receivable, or recording a current or deferred tax liability. The proposed Interpretation also provides guidance on measurement, derecognition of tax benefits, classification, interim period accounting disclosure, and transition requirements in accounting for uncertain tax positions. The proposed Interpretation has a 60-day comment period and shall be effective for all companies as of the first fiscal year ending after December 15, 2005. The Company is assessing the impact of adopting the new pronouncement and is currently unable to estimate its impact on the Company's consolidated financial statements.

The Company participates in unconsolidated investments that own real estate qualifying for low income housing tax credits based on Section 42 of the Internal Revenue Code. The Company's share of operating losses generated by these investments is recorded as other income. The Company has historically netted the tax credits generated by these investments against the related operating losses. In the first quarter of 2005, the Company reviewed this accounting method and determined it was more appropriate to record these tax credits as a reduction of income tax expense. Prior period results for other income and income tax expense have been reclassified and did not have an impact on net income. See "Other Developments."

Certain other prior year information has been reclassified to conform its presentation with the 2005 financial statements.

3. Acquisitions and Dispositions

The Company continues to be an active acquirer of securities servicing and asset management businesses.

The Company has announced 5 acquisitions in 2005. The total acquisition cost in the third quarter and nine months of 2005 was $177 million and $188 million, paid in cash. The Company frequently structures its acquisitions with both an initial payment and a later contingent payment tied to post-closing revenue or income growth. The Company records the fair value of contingent payments as an additional cost of the entity acquired in the period that the payment becomes probable.

Goodwill and the tax-deductible portion of goodwill related to acquisitions in the third quarter and nine months of 2005 was $124 million, in both periods. At September 30, 2005, the Company was liable for potential contingent payments related to acquisitions in the amount of $204 million. During the third quarter and the nine months of 2005, the Company paid or accrued $9 million and $43 million for contingent payments related to acquisitions made in prior years. The pro forma effect of the 2005 acquisitions is not material to year-to-date 2005 net income.

2005

In January 2005, the Company acquired certain of the assets and liabilities of Standard & Poor's Securities, Inc. ("SPSI"), the institutional brokerage subsidiary of Standard & Poor's. The Company will assume SPSI's client relationships and Standard & Poor's research clients will have access to BNY Securities Group's diverse set of execution management platforms and commission management services. The acquisition demonstrates the Company's strategy to work with leading independent providers of research and other financial services.

In March 2005, the Company acquired the execution and commission management services of Boston Institutional Services ("BIS"). Under the terms of the agreement, the Company will assume BIS's client relationships for its execution and commission management business.

In July 2005, the Company acquired Lynch, Jones & Ryan, Inc. ("LJR"), a subsidiary of Instinet Group. LJR is the pioneer and premier provider of commission recapture programs, with over 30 years experience in providing value-added trading services to institutional investors who comprise 1,400 plan sponsor funds, with more than $2.2 trillion in assets. The Company's headquarters are in New York, with regional offices in Chicago, Dallas, and San Francisco and a presence in London, Tokyo and Sydney. The acquisition of LJR bolsters the Company's position as a leading provider of agency brokerage and commission management services, and reinforces its long-standing commitment to the plan sponsor and institutional fund community around the world.

In June 2005, the Company and Trust Company of Australia Ltd. ("Trust") formed a joint venture that will provide securitization trustee and other agency-related services to Australian-based issuers of debt. The new company will combine Trust's strong local infrastructure and market presence with the Company's global experience and expertise to provide a wide range of trustee and agency services. The joint venture, based in Sydney, began operating in early June 2005. The joint venture presents the Company with a significant opportunity to expand its footprint in Australia and to capitalize on the sizeable growth potential in the securitization market across a variety of asset classes.

In July 2005, The Bank of New York and BHF-BANK established BHF BNY Securities Services GmbH as a jointly held subsidiary. Based in Frankfurt am



Main, the new company will market Global Custody (Depotbank) services for German investment companies, and securities custody and settlement services for the national and international direct investments of institutional investors.

In July 2005, the Company acquired the bond administration business of Marshall & Ilsley Trust Company N.A., and M&I Marshall & Ilsley Bank (together, "M&I"), where they act as bond trustee, paying/fiscal agent, master trustee, transfer agent and/or registrar. The transaction involved the acquisition of approximately 560 bond trusteeships and agency appointments, representing $4.8 billion of principal debt outstanding for an estimated 225 clients.

In August 2005, the Company and Nordea, the leading financial services provider in the Nordic region, have entered into a strategic agreement to provide global custody and selected related services to Nordea's institutional clients in the Nordic and Baltic Sea regions. The scope of the agreement involves approximately EUR 240 billion of assets which represent about half of Nordea's EUR 500 billion assets under custody.

In August 2005, the Company announced a strategic arrangement with IL&FS Trust Company Limited ("ITCL"), a leading provider of trust and fiduciary services in India. The arrangement between the two organizations will provide Indian issuers with access to the Company's global network, a comprehensive array of services to the international capital markets, and leading-edge technology capabilities. Under the arrangement, ITCL will perform corporate trust services in India, and the Company will provide offshore services.

In October 2005, the Company announced a marketing alliance with National Australia Bank ("National"). The arrangement will enable the Company to offer commission recapture services to National's custody clients in Australia and New Zealand. The alliance continues the strategic international build-out of the Company's transition management and commission recapture capabilities, which has included the opening of its Sydney office and acquisition of LJR.

In October 2005, the Company announced a definitive agreement to acquire Alcentra Group Limited, an international asset management group focused on funds that invest in sub-investment grade debt. Alcentra's management team will retain a 20 percent interest.  Alcentra has operations in London and Los Angeles and currently manages 15 different investment funds with over $6.2 billion of assets. The transaction is expected to close by year-end, subject to regulatory approval and other customary conditions of closing.

4. Goodwill and Intangibles

Goodwill by business segment is as follows:

| (In millions) | September 30, 2005 | December 31, 2004 |
|---|---|---|

| | | |
|---|---|---|
| Servicing and Fiduciary Businesses | $ 3,473 | $ 3,337 |
| Corporate Banking | 31 | 31 |
| Retail Banking | 109 | 109 |
| Financial Markets | - | - |
| Consolidated Total | $ 3,613 | $ 3,477 |

The Company's business segments are tested annually for goodwill impairment.

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Intangible Assets
-----------------

| | September 30, 2005 | | | | December 31, 2004 | | |
|---|---|---|---|---|---|---|---|
| (Dollars in millions) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted Average Amortization Period in Years | Gross Carrying Amount | Accumulated Amortization | Net Carry Amou |
| Trade Names | $ 370 | $ - | $ 370 | Indefinite Life | $ 370 | $ - | $ |
| Customer Relationships | 521 | (89) | 432 | 16 | 474 | (65) | |
| Other Intangible Assets | 28 | (17) | 11 | 6 | 41 | (27) | |

The aggregate amortization expense of intangibles was $10 million and $9 million for the quarters ended September 30, 2005 and 2004, respectively. The aggregate amortization expense of intangibles was $28 million and $26 million for the nine months ended September 30, 2005 and 2004, respectively. Estimated amortization expense for the next five years is as follows:

| (In millions) | For the Year Ended December 31, | Amortization Expense |
|---|---|---|
| | 2005 | $40 |
| | 2006 | 43 |
| | 2007 | 39 |
| | 2008 | 38 |
| | 2009 | 37 |

5. 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 loan portfolio at the balance sheet date. Management's judgment includes the following factors, among others: risks of individual credits; past experience; the volume, composition, and growth of the loan portfolio; and economic conditions.

The Company conducts a quarterly portfolio review to determine the adequacy of its allowance for credit losses. All commercial loans over $1 million are assigned to specific risk categories. Smaller commercial and consumer loans are evaluated on a pooled basis and assigned to specific risk categories. Following this review, senior management of the Company analyzes the results and determines the allowance for credit losses. The Risk Committee of the Company's Board of Directors reviews the allowance at the end of each quarter.

The portion of the allowance for credit losses allocated to impaired loans (nonaccrual commercial loans over $1 million) is measured by the difference between their recorded value and fair value. Fair value is the present value of the expected future cash flows from borrowers, the market value of the loan, or the fair value of the collateral.

Commercial loans are placed on nonaccrual status when collateral is insufficient and principal or interest is past due 90 days or more, or when there is reasonable doubt that interest or principal will be collected. Accrued interest is usually reversed when a loan is placed on nonaccrual status. Interest payments received on nonaccrual loans may be recognized as income or applied to principal depending upon management's judgment. Nonaccrual loans are restored to accrual status when principal and interest are current or they become fully collateralized. Consumer loans are not classified as nonperforming assets, but are charged off and interest accrued is suspended 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.

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

| (In millions) | Three Months Ended September 30, 2005 | | |
|---|---|---|---|
| | Allowance for Loan Losses | Allowance for Lending-Related Commitments | Allowance for Credit Losses |
| Balance, Beginning of Period | $ 562 | $ 148 | $ 710 |
| Charge-Offs | (14) | - | (14) |
| Recoveries | 1 | - | 1 |
| Net Charge-Offs | (13) | - | (13) |
| Provision | 12 | (2) | 10 |
| Balance, End of Period | $ 561 | $ 146 | $ 707 |

| | Three Months Ended September 30, 2004 | | |
|---|---|---|---|
| | Allowance for Loan Losses | Allowance for Lending-Related Commitments | Allowance for Credit Losses |

| | Allowance for Loan Losses | Allowance for Lending-Related Commitments | Allowance for Credit Losses |
|---|---|---|---|
| Balance, Beginning of Period | $ 598 | $ 177 | $ 775 |
| Charge-Offs | (21) | - | (21) |
| Recoveries | 2 | - | 2 |
| Net Charge-Offs | (19) | - | (19) |
| Provision | 19 | (19) | - |
| Balance, End of Period | $ 598 | $ 158 | $ 756 |

| | Nine Months Ended September 30, 2005 | | |
|---|---|---|---|
| | Allowance for Loan Losses | Allowance for Lending-Related Commitments | Allowance for Credit Losses |
| Balance, Beginning of Period | $ 591 | $ 145 | $ 736 |
| Charge-Offs | (40) | - | (40) |
| Recoveries | 6 | - | 6 |
| Net Charge-Offs | (34) | - | (34) |
| Provision | 4 | 1 | 5 |
| Balance, End of Period | $ 561 | $ 146 | $ 707 |

| | Nine Months Ended September 30, 2004 | | |
|---|---|---|---|
| | Allowance for Loan Losses | Allowance for Lending-Related Commitments | Allowance for Credit Losses |
| Balance, Beginning of Period | $ 668 | $ 136 | $ 804 |
| Charge-Offs | (76) | - | (76) |
| Recoveries | 6 | - | 6 |
| Net Charge-Offs | (70) | - | (70) |
| Provision | - | 22 | 22 |
| Balance, End of Period | $ 598 | $ 158 | $ 756 |



## 6. Capital Transactions

The Company has 5 million authorized shares of Class A preferred stock having a par value of $2.00 per share. At September 30, 2005 and December 31, 2004, 3,000 shares were outstanding.

During the quarter ended September 30, 2005, the Company issued $55 million subordinated debt qualifying as Tier II capital.

At September 30, 2005, the Company had registration statements with a remaining capacity of approximately $1.7 billion of debt, preferred stock, preferred trust securities, or common stock.

## 7. Earnings Per Share

The following table illustrates the computations of basic and diluted earnings per share:

| (Dollars in millions, except per share amounts) | Three Months Ended September 30, 2005 | Three Months Ended September 30, 2004 | Nine Months Ended September 30, 2005 | Nine Months Ended September 30, 2004 |
|---|---|---|---|---|
| Net Income (1) | $ 389 | $ 354 | $ 1,166 | $ 1,089 |
| Basic Weighted Average Shares Outstanding | 761 | 772 | 766 | 772 |
| Shares Issuable Due to Employee Stock Compensation | 8 | 6 | 7 | 6 |
| Diluted Weighted Average Shares Outstanding | 769 | 778 | 773 | 778 |
| Basic Earnings Per Share: | $ 0.51 | $ 0.46 | $ 1.52 | $ 1.41 |
| Diluted Earnings Per Share: | 0.51 | 0.46 | 1.51 | 1.40 |

(1) Net Income, net income available to common shareholders and diluted net income are the same for all periods presented.



## 8. Employee Benefit Plans

The components of net periodic benefit cost are as follows:

| | Pension Benefits | | | | | | | | Healthcare Benefits | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | | Three Months Ended September 30, | | Nine Mont Septembe |
| | Domestic | | Foreign | | Domestic | | Foreign | | | | |
| (In millions) | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Net Periodic Cost (Income) | | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Service Cost | $ 16 | $ 12 | $ 2 | $ 2 | $ 48 | $ 35 | $ 6 | $ 7 | $ - | $ - | $ 1 |
| Interest Cost | 14 | 13 | 2 | 2 | 42 | 38 | 7 | 6 | 2 | 2 | 6 |
| Expected Return on Assets | (30) | (33) | (2) | (2) | (90) | (99) | (8) | (8) | (2) | (1) | (5) |
| Other | 4 | 1 | - | - | 13 | 3 | 1 | - | 2 | 2 | 5 |
| Net Periodic Cost (Income) | $ 4 | $ (7) | $ 2 | $ 2 | $ 13 | $(23) | $ 6 | $ 5 | $ 2 | $ 3 | $ 7 |

## 9. Income Taxes

The statutory federal income tax rate is reconciled to the Company's effective income tax rate below:

| | Nine Months Ended September 30, 2005 | 2004 |
|---|---|---|
| Federal Rate | 35.0% | 35.0% |
| State and Local Income Taxes, Net of Federal Income Tax Benefit | 3.7 | (0.9) |
| Nondeductible Expenses | 0.5 | 0.1 |
| Credit for Synthetic Fuel Investments | (1.8) | (1.2) |
| Credit for Low-Income Housing Investments | (1.6) | (2.0) |
| Tax-Exempt Income From Municipal Securities | (0.1) | (0.2) |
| Other Tax-Exempt Income | (1.1) | (1.3) |
| Foreign Operations | (0.2) | 0.5 |
| Leveraged Lease Portfolio | (0.3) | (0.7) |
| Tax Reserve - LILO Exposure | 0.5 | 0.5 |
| Other - Net | (0.9) | (0.3) |
| Effective Rate | 33.7% | 29.5% |

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## 10. 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. Management does not expect any material losses to result from these matters.

A summary of the notional amount of the Company's off-balance-sheet credit transactions, net of participations, at September 30, 2005 and December 31, 2004 follows:

### Off-Balance-Sheet Credit Risks

| (In millions) | September 30, 2005 | December 31, 2004 |
|---|---|---|
| Lending Commitments | $ 34,225 | $ 34,834 |
| Standby Letters of Credit, Net | 10,205 | 9,507 |
| Commercial Letters of Credit | 1,464 | 1,264 |
| Securities Lending Indemnifications | 297,237 | 232,025 |

The total potential loss on undrawn 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.

In securities lending transactions, the Company generally requires the borrower to provide 102% cash collateral which is monitored on a daily basis, thus reducing credit risk. Securities lending transactions are generally entered into only with highly-rated counterparties. At September 30, 2005 and December 31, 2004, securities lending indemnifications were secured by collateral of $303.5 billion and $233.0 billion, respectively.

The notional amounts for other off-balance-sheet risks express the dollar volume of the transactions; however, credit risk is much smaller. The Company performs credit reviews and enters into netting agreements to minimize the credit risk of foreign currency and interest rate risk management products. The Company enters into offsetting positions to reduce exposure to foreign exchange and interest rate risk.

Standby letters of credit principally support corporate obligations and include $0.9 billion and $0.5 billion that were collateralized with cash and securities on September 30, 2005 and December 31, 2004. At September 30, 2005, approximately $6.8 billion of the standbys will expire within one year, and the balance between one to five years.

## Other

In the ordinary course of business, the Company makes certain investments that have tax consequences. From time to time, the IRS may question or challenge the tax position taken by the Company. The Company engaged in certain types of structured leasing investments, referred to as "LILOs", prior to 1999 that the IRS has challenged. In 2004, the IRS proposed adjustments to the Company's tax treatment of these transactions. The Company believes that its tax position related to these transactions was proper based upon applicable statutes, regulations and case law in effect at the time the transactions were entered into. However, a court or other judicial or administrative authority, if presented with the transactions, could disagree.

Beginning in the fourth quarter of 2004, the Company had several appellate conferences with the IRS related to the Company's LILO transactions. Negotiations have continued with the IRS and based on these negotiations, the Company believes it is likely it will settle the proposed IRS tax adjustments relating to transactions closed in 1996 and 1997. However, negotiations are not final and it remains possible that the matter will be litigated. The



Company's 1998 leveraged lease transactions are in a later audit cycle and thus are unlikely to be part of any settlement of the 1996 and 1997 leases. However, the Company believes that a comparable settlement for 1998 will ultimately be possible given the similarity between these leases and the earlier leases.

There were no significant new developments on the LILO matter during the third quarter of 2005.

On February 11, 2005, the IRS released Notice 2005-13, which identified certain lease investments known as "SILOs" as potentially subject to IRS challenge. The Company believes that certain of its lease investments entered into between 1999 and 2004 may be consistent with transactions described in the notice. In response, the Company is reviewing its lease portfolio and evaluating the technical merits of the IRS' position. Although it is likely the IRS will challenge the tax benefits associated with these leases, the Company remains confident that its leases complied with statutory, administrative and judicial authority existing at that time.

The Company currently believes it has adequate tax reserves to cover its LILO exposure for all years and any other potential tax exposures the IRS could raise, based on a probability assessment of various potential outcomes. Probabilities and outcomes are reviewed as events unfold, and adjustments to the reserves are made when appropriate.

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. 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, based on current knowledge and after consultation with legal counsel, the Company does not believe that judgments or settlements, if any, arising from pending or potential legal actions or regulatory matters, either individually or in the aggregate, 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 matters.

See discussion of contingent legal matters in the "Legal Proceedings" section.



QUARTERLY REPORT ON FORM 10-Q
THE BANK OF NEW YORK COMPANY, INC.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2005

Commission file number 001-06152

THE BANK OF NEW YORK COMPANY, INC.
Incorporated in the State of New York
I.R.S. Employer Identification No. 13-2614959
Address: One Wall Street
New York, New York 10286
Telephone: (212) 495-1784

As of September 30, 2005, The Bank of New York Company, Inc. had 769,911,211 shares of common stock ($7.50 par value) outstanding.

The Bank of New York Company, Inc. (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 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.

The registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

The following sections of the Financial Review set forth in the cross-reference index are incorporated in the Quarterly Report on Form 10-Q.



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ITEM 4.  CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's Disclosure Committee, whose members include the Chief Executive Officer and Chief Financial Officer, has responsibility for ensuring that there is an adequate and effective process for establishing, maintaining, and evaluating disclosure controls and procedures which are designed to ensure that information required to be disclosed by the Company in its SEC reports is timely recorded, processed, summarized and reported. In addition, the Company has established a Code of Conduct designed to provide a statement of the values and ethical standards to which the Company requires its employees and directors to adhere. The Code of Conduct provides the framework for maintaining the highest possible standards of professional conduct.  The Company also maintains an ethics hotline for employees.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's 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 the Company's disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, the Company may routinely modify, upgrade and enhance its internal controls and procedures for financial reporting. However, there have not been any changes in the Company's internal controls over financial reporting as defined in Exchange Act Rule 13a-15(f) and 15d-15(f) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## 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, based on current knowledge and after consultation with legal counsel, the Company does not believe that judgments or settlements, if any, arising from pending or potential legal actions or regulatory matters, either individually or in the aggregate, 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 discussed in a report filed on Form 8-K on November 8, 2005, the Bank entered into a non-prosecution agreement with the U.S. Attorney's Offices for the Southern and Eastern Districts of New York ("SDNY" and "EDNY"). The agreement resolves the previously disclosed SDNY investigation involving funds transfer activities to and from Russia from 1996-1999 and the EDNY investigation of a fraudulent scheme conducted by a former customer of one of the Bank's Long Island branch offices.



There have been no material changes in the proceedings previously disclosed in the 10-Q for the second quarter of 2005 relating to the Company's mutual fund and issuer services businesses.

### Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Shares of the Company's common stock were issued in the following transactions exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) thereof:

(a) On October 10, 2005, 2,400 shares of common stock were issued to Richard C. Vaughan as part of his annual retainer as a non-employee director.

(c) Under its stock repurchase program, the Company buys back shares from time to time. The following table discloses the Company's repurchases of the Company's common stock made during the third quarter of 2005.

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May be Repurchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1-31 | 2,160,639 | $ 31.08(1) | 2,160,639 | 19,333,333 |
| August 1-31 | 20,450 | 29.17 | 20,450 | 19,312,883 |
| September 1-30 | 6,301 | 30.85 | 6,301 | 19,306,582 |
| Total | 2,187,390 | | 2,187,390 | |

(1) Based on initial price.

All shares were repurchased through the Company's stock repurchase programs announced on November 12, 2002, and July 12, 2005, which permits the repurchase of 16 million shares and 20 million shares, respectively. The shares repurchased in August and September primarily resulted from open market purchases, while 2.0 million shares were repurchased in July at an initial price of $31.25 from a broker-dealer counterparty who borrowed the shares, as part of an accelerated share repurchase program. The initial price is subject to a purchase price adjustment based on the price the counterparty actually pays for the shares.

## Item 6. Exhibits

Exhibit 12 - Ratio of Earnings to Fixed Charges for the Three Months and Nine Months Ended September 30, 2005 and 2004;
Exhibit 31 - Certification of Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;
Exhibit 31.1 - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002;
Exhibit 32 - Certification of Chairman and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002; and
Exhibit 32.1 - 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 hereunto duly authorized.

THE BANK OF NEW YORK COMPANY, INC.
(Registrant)

Date: November 08, 2005 By: /s/ Thomas J. Mastro

Name: Thomas J. Mastro
Title: Comptroller

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EXHIBIT INDEX

| Exhibit | Description |
|---|---|
| 12 | Ratio of Earnings to Fixed Charges for the Three Months and Nine Months Ended September 30, 2005 and 2004. |
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