



FORM 10-Q

BANK OF NEW YORK CO INC – bk

Filed: August 14, 2002 (period: June 30, 2002)

Quarterly report which provides a continuing view of a company's financial position

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SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
 SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-6152

THE BANK OF NEW YORK COMPANY, INC.
 (Exact name of registrant as specified in its charter)

| | |
|---|--|
| NEW YORK | 13-2614959 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. employer identification number) |

| | |
|--|------------|
| One Wall Street, New York, New York | 10286 |
| (Address of principal executive offices) | (Zip code) |

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

The number of shares outstanding of the issuer's Common Stock, \$7.50 par value, was 726,293,847 shares as of July 31, 2002.

THE BANK OF NEW YORK COMPANY, INC.
FORM 10-Q
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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | June 30, 2002 ---- | December 31, 2001 ---- |
|---|--------------------------|------------------------------|
| Assets | | |
| ----- | | |
| Cash and Due from Banks | \$ 2,885 | \$ 3,222 |
| Interest-Bearing Deposits in Banks | 7,765 | 6,619 |
| Securities: | | |
| Held-to-Maturity (fair value of \$1,198 in 2002 and \$1,178 in 2001) | 1,201 | 1,211 |
| Available-for-Sale | 15,176 | 11,651 |
| | ----- | ----- |
| Total Securities | 16,377 | 12,862 |
| Trading Assets at Fair Value | 6,577 | 8,270 |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 2,645 | 4,795 |
| Loans (less allowance for credit losses of \$616 in 2002 and 2001) | 35,382 | 35,131 |
| Premises and Equipment | 1,013 | 992 |
| Due from Customers on Acceptances | 502 | 313 |
| Accrued Interest Receivable | 248 | 236 |
| Goodwill | 2,298 | 2,065 |
| Intangible Assets | 74 | 19 |
| Other Assets | 5,039 | 6,501 |
| | ----- | ----- |
| Total Assets | \$80,805 | \$81,025 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| ----- | | |
| Deposits | | |
| Noninterest-Bearing (principally domestic offices) | \$11,627 | \$12,635 |
| Interest-Bearing | | |
| Domestic Offices | 18,093 | 16,553 |
| Foreign Offices | 25,571 | 26,523 |
| | ----- | ----- |
| Total Deposits | 55,291 | 55,711 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 1,687 | 1,756 |
| Trading Liabilities | 3,033 | 2,264 |
| Other Borrowed Funds | 2,052 | 2,363 |
| Acceptances Outstanding | 504 | 358 |
| Accrued Taxes and Other Expenses | 3,998 | 3,766 |
| Accrued Interest Payable | 53 | 92 |
| Other Liabilities | 1,909 | 3,422 |
| Long-Term Debt | 5,668 | 4,976 |
| | ----- | ----- |
| Total Liabilities | 74,195 | 74,708 |
| | ----- | ----- |
| Shareholders' Equity | | |
| Class A Preferred Stock - par value \$2.00 per share, authorized 5,000,000 shares, outstanding 3,500 shares in 2002 and 2001 | - | - |
| Common Stock-par value \$7.50 per share, authorized 2,400,000,000 shares, issued 993,235,006 shares in 2002 and 990,773,101 shares in 2001 | 7,449 | 7,431 |
| Additional Capital | 809 | 741 |
| Retained Earnings | 4,831 | 4,383 |
| Accumulated Other Comprehensive Income | 32 | 80 |
| | ----- | ----- |

| | | |
|--|----------|----------|
| | 13,121 | 12,635 |
| Less: Treasury Stock (265,346,551 shares in 2002 and 260,449,527 shares in 2001), at cost | 6,505 | 6,312 |
| Loan to ESOP (823,810 shares in 2002 and 2001), at cost | 6 | 6 |
| | ----- | ----- |
| Total Shareholders' Equity | 6,610 | 6,317 |
| | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$80,805 | \$81,025 |
| | ===== | ===== |

<FN>

Note: The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date.

See accompanying Notes to Consolidated Financial Statements.

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

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--|---|--------|---|---------|
| | 2002 | 2001 | 2002 | 2001 |
| | ---- | ---- | ---- | ---- |
| Interest Income | | | | |
| ----- | | | | |
| Loans | \$ 377 | \$ 595 | \$ 760 | \$1,271 |
| Securities | | | | |
| Taxable | 158 | 100 | 299 | 178 |
| Exempt from Federal Income Taxes | 16 | 20 | 32 | 37 |
| | ----- | ----- | ----- | ----- |
| | 174 | 120 | 331 | 215 |
| Deposits in Banks | 44 | 62 | 79 | 132 |
| Federal Funds Sold and Securities Purchased | | | | |
| Under Resale Agreements | 12 | 38 | 26 | 89 |
| Trading Assets | 68 | 110 | 141 | 251 |
| | ----- | ----- | ----- | ----- |
| Total Interest Income | 675 | 925 | 1,337 | 1,958 |
| | ----- | ----- | ----- | ----- |
| Interest Expense | | | | |
| ----- | | | | |
| Deposits | 158 | 373 | 318 | 835 |
| Federal Funds Purchased and Securities Sold | | | | |
| Under Repurchase Agreements | 8 | 23 | 16 | 55 |
| Other Borrowed Funds | 30 | 28 | 59 | 59 |
| Long-Term Debt | 56 | 71 | 109 | 152 |
| | ----- | ----- | ----- | ----- |
| Total Interest Expense | 252 | 495 | 502 | 1,101 |
| | ----- | ----- | ----- | ----- |
| Net Interest Income | 423 | 430 | 835 | 857 |
| ----- | | | | |
| Provision for Credit Losses | 35 | 30 | 70 | 60 |
| | ----- | ----- | ----- | ----- |
| Net Interest Income After Provision for Credit Losses | 388 | 400 | 765 | 797 |
| | ----- | ----- | ----- | ----- |
| Noninterest Income | | | | |
| ----- | | | | |
| Servicing Fees | | | | |
| Securities | 478 | 443 | 932 | 906 |
| Global Payment Services | 71 | 72 | 144 | 141 |
| | ----- | ----- | ----- | ----- |
| | 549 | 515 | 1,076 | 1,047 |
| Private Client Services and | | | | |
| Asset Management Fees | 88 | 80 | 171 | 161 |
| Service Charges and Fees | 93 | 95 | 176 | 185 |
| Foreign Exchange and Other Trading Activities | 72 | 98 | 134 | 181 |
| Securities Gains | 25 | 46 | 56 | 92 |
| Other | 28 | 31 | 60 | 64 |
| | ----- | ----- | ----- | ----- |
| Total Noninterest Income | 855 | 865 | 1,673 | 1,730 |
| | ----- | ----- | ----- | ----- |
| Noninterest Expense | | | | |
| ----- | | | | |
| Salaries and Employee Benefits | 418 | 393 | 805 | 788 |
| Net Occupancy | 49 | 47 | 98 | 97 |
| Furniture and Equipment | 35 | 31 | 70 | 62 |
| Other | 194 | 193 | 372 | 377 |
| | ----- | ----- | ----- | ----- |
| Total Noninterest Expense | 696 | 664 | 1,345 | 1,324 |
| | ----- | ----- | ----- | ----- |
| Income Before Income Taxes | 547 | 601 | 1,093 | 1,203 |
| Income Taxes | 186 | 216 | 370 | 434 |
| | ----- | ----- | ----- | ----- |
| Net Income | \$ 361 | \$ 385 | \$ 723 | \$ 769 |
| ----- | ===== | ===== | ===== | ===== |
| Per Common Share Data | | | | |
| ----- | | | | |
| Basic Earnings | \$0.50 | \$0.53 | \$1.00 | \$1.05 |
| Diluted Earnings | 0.50 | 0.52 | 0.99 | 1.03 |
| Cash Dividends Paid | 0.19 | 0.18 | 0.38 | 0.36 |

Diluted Shares Outstanding

729

742

729

743

<FN>

See accompanying Notes to Consolidated Financial Statements.

</FN>

THE BANK OF NEW YORK COMPANY, INC.
 Consolidated Statement of Changes in Shareholders' Equity
 For the six months ended June 30, 2002
 (In millions)
 (Unaudited)

| | | | |
|--|--------|--------|----------|
| Common Stock | | | |
| Balance, January 1 | | | \$ 7,431 |
| Issuances in Connection with Employee Benefit Plans | | | 18 |
| | | | ----- |
| Balance, June 30 | | | 7,449 |
| | | | ----- |
| Additional Capital | | | |
| Balance, January 1 | | | 741 |
| Issuances in Connection with Employee Benefit Plans | | | 68 |
| | | | ----- |
| Balance, June 30 | | | 809 |
| | | | ----- |
| Retained Earnings | | | |
| Balance, January 1 | | | 4,383 |
| Net Income | \$ 723 | | 723 |
| Cash Dividends on Common Stock | | | (275) |
| | | | ----- |
| Balance, June 30 | | | 4,831 |
| | | | ----- |
| Accumulated Other Comprehensive Income | | | |
| Securities Valuation Allowance | | | |
| Balance, January 1 | | | 114 |
| Change in Fair Value of Securities Available-for-Sale, Net of Taxes of \$(16) Million | | (9) | (9) |
| Reclassification Adjustment, Net of Taxes of \$(25) Million | | (40) | (40) |
| | | | ----- |
| Balance, June 30 | | | 65 |
| | | | ----- |
| Foreign Currency Items | | | |
| Balance, January 1 | | | (46) |
| Foreign Currency Translation Adjustment, Net of Taxes of \$(1) Million | | (2) | (2) |
| | | | ----- |
| Balance, June 30 | | | (48) |
| | | | ----- |
| Unrealized Derivative Gains | | | |
| Balance, January 1 | | | 12 |
| Net Unrealized Derivative Gains on Cash Flow Hedges, Net of Taxes of \$3 Million | | 3 | 3 |
| | | | ----- |
| Balance, June 30 | | | 15 |
| | | | ----- |
| Total Comprehensive Income | | \$ 675 | |
| | | | ===== |
| Less Treasury Stock | | | |
| Balance, January 1 | | | 6,312 |
| Issued | | | (42) |
| Acquired | | | 235 |
| | | | ----- |
| Balance, June 30 | | | 6,505 |

| | |
|-------------------------------------|----------|
| Less Loan to ESOP | ----- |
| Balance, January 1 | 6 |
| | ----- |
| Balance, June 30 | 6 |
| | ----- |
| Total Shareholders' Equity, June 30 | \$ 6,610 |
| | ===== |

<FN>

Comprehensive Income for the three months ended June 30, 2002 and 2001 was \$387 million and \$381 million.

Comprehensive Income for the six months ended June 30, 2002 and 2001 was \$675 million and \$688 million.

See accompanying Notes to Consolidated Financial Statements.

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

| | For the six months Ended June 30, | |
|---|--------------------------------------|---------|
| | 2002 | 2001 |
| | ---- | ---- |
| Operating Activities | | |
| Net Income | \$ 723 | \$ 769 |
| Adjustments to Determine Net Cash attributable to Operating Activities: | | |
| Provision for Losses on Credit and Other Real Estate | 70 | 62 |
| Depreciation and Amortization | 91 | 127 |
| Deferred Income Taxes | 329 | 319 |
| Securities Gains | (56) | (92) |
| Change in Trading Activities | 2,464 | 1,549 |
| Change in Accruals and Other, Net | 22 | 99 |
| | ----- | ----- |
| Net Cash Provided by Operating Activities | 3,643 | 2,833 |
| | ----- | ----- |
| Investing Activities | | |
| Change in Interest-Bearing Deposits in Banks | (831) | (868) |
| Purchases of Securities Held-to-Maturity | (60) | - |
| Maturities of Securities Held-to-Maturity | 69 | 20 |
| Purchases of Securities Available-for-Sale | (10,353) | (5,060) |
| Sales of Securities Available-for-Sale | 3,979 | 1,575 |
| Maturities of Securities Available-for-Sale | 2,888 | 928 |
| Net Principal Disbursed on Loans to Customers | (508) | (545) |
| Sales of Loans and Other Real Estate | 205 | 276 |
| Change in Federal Funds Sold and Securities Purchased Under Resale Agreements | 2,150 | 3,158 |
| Purchases of Premises and Equipment | (126) | (59) |
| Acquisitions, Net of Cash Acquired | (323) | (520) |
| Proceeds from the Sale of Premises and Equipment | - | 3 |
| Other, Net | 66 | (20) |
| | ----- | ----- |
| Net Cash (Used) by Investing Activities | (2,844) | (1,112) |
| | ----- | ----- |
| Financing Activities | | |
| Change in Deposits | (1,073) | (2,035) |
| Change in Federal Funds Purchased and Securities Sold Under Repurchase Agreements | (69) | 1,093 |
| Change in Other Borrowed Funds | (211) | 361 |
| Proceeds from the Issuance of Long-Term Debt | 675 | 100 |
| Repayments of Long-Term Debt | (60) | (60) |
| Issuance of Common Stock | 128 | 232 |
| Treasury Stock Acquired | (235) | (522) |
| Cash Dividends Paid | (275) | (264) |
| | ----- | ----- |
| Net Cash (Used) by Financing Activities | (1,120) | (1,095) |
| | ----- | ----- |
| Effect of Exchange Rate Changes on Cash | (16) | 244 |
| | ----- | ----- |
| Change in Cash and Due From Banks | (337) | 870 |
| Cash and Due from Banks at Beginning of Period | 3,222 | 3,125 |
| | ----- | ----- |
| Cash and Due from Banks at End of Period | \$2,885 | \$3,995 |
| | ===== | ===== |
| ----- | | |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash Paid During the Period for: | | |
| Interest | \$ 541 | \$1,083 |
| Income Taxes | 24 | 77 |
| Noncash Investing Activity | | |
| (Primarily Foreclosure of Real Estate) | 1 | 1 |
| <FN> | | |
| ----- | | |
| See accompanying Notes to Consolidated Financial Statements. | | |
| </FN> | | |

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. (the Company), a financial holding company, and its subsidiaries 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. Such adjustments are of a normal recurring nature.

2. Acquisitions and Dispositions

The Company continues to be an active acquirer of securities servicing and asset management businesses. During the second quarter of 2002, 3 businesses were acquired for a total cost of \$116 million, primarily paid in cash. 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. Potential contingent payments related to second quarter acquisitions are \$99 million. During the first six months of 2002, the Company acquired 7 businesses for \$321 million, and is contingently liable for payments of \$284 million.

Goodwill related to second quarter and year-to-date 2002 acquisition transactions was \$95 million and \$228 million respectively. The tax deductible portion of goodwill for the second quarter and year-to-date 2002 is \$95 million and \$165 million. All of the goodwill was assigned to the Company's Servicing and Fiduciary Business segment. At June 30, 2002, the Company was liable for potential contingent payments related to acquisitions in the amount of \$451 million. During the second quarter and first six months of 2002, the Company paid \$4 million and \$10 million for contingent payments related to acquisitions made in prior years. The pro forma effect of the 2002 acquisitions is not material to second quarter 2002 net income.

In February 2002, the Company acquired Autranet, Inc., a subsidiary of Credit Suisse First Boston (USA), Inc. This acquisition provides the Company with one of the largest providers of independently originated research services in the U.S. and maintains relationships with over 500 institutional investment managers. Autranet provides a full range of services covering every aspect of the third party research process including trade execution, operational and administrative support, research selection and procurement services and regulatory support.

In February 2002, the Company acquired G-Trade Services, Ltd. and other related wholly-owned subsidiaries of the Credit Lyonnais SA Group. G-Trade, a leading provider of wholesale execution services including electronic direct access trading in 22 markets and basket trading capabilities in 65 markets worldwide, is the executing and clearing broker for non-U.S. equities executed through the Bloomberg Tradebook system. This acquisition will greatly expand the Company's non-dollar institutional trading capabilities and enhance the range of international services that the Company offers in the institutional brokerage and clearing services sector.

In February 2002, the Company acquired the Core International ADR and Domestic Equity Index institutional investment management businesses of Axe-

Houghton Associates, Inc. based in Rye Brook, New York. This transaction will add approximately \$2.6 billion in assets under management.

In March 2002, the Company acquired Jaywalk, Inc., a third-party aggregator of quality independent investment research. The acquisition offers quantitative, fundamental, technical, sell strategy and intellectual property analyses covering thousands of securities. Jaywalk brings together top independent research providers on one platform, enabling institutional money management clients to generate new investment ideas and strategies.

In May 2002, the Company acquired Gannet Welsh & Kotler, Inc ("GW&K"), a privately held asset management firm based in Boston, Massachusetts. GW&K manages approximately \$5 billion for high net worth individuals and small to mid-size institutions located in the Boston area and nationwide. This acquisition offers both fixed income and equity portfolio management services.

In June 2002, the Company acquired Beacon Fiduciary Advisors, a privately held asset management firm based in Chestnut Hill, Massachusetts. This acquisition manages in excess of \$700 million for over 350 high-net-worth individuals nationwide.

In June 2002, the Company acquired Francis P. Maglio & Co., Inc., a leading institutional trading firm. This acquisition complements the Company's comprehensive suite of trading strategies and systems, which include: volume weighted-average price, program and portfolio transitions trading to its core block, and electronic trading capabilities.

In July 2002, the Company acquired the correspondent clearing business of Weiss, Peck & Greer, LLC adding approximately 50 new correspondent clearing clients.

In August 2002, the Company acquired the Structured Investment Vehicle (SIV) management business of Quadrant Capital Limited based in London, England. Quadrant Capital provides investment management and administrative services for SIV programs. This acquisition involves the transfer of Quadrant Capital's administrative personnel, proprietary program documentation and a specialized software tool known as Quasar, which is unique in its abilities to provide customized asset and liability management reporting for SIV programs.

In August 2002, the Company signed a definitive agreement to acquire Lockwood Financial Group Inc. ("LFG") based in Malvern, Pennsylvania. LFG is the industry's largest provider of individually managed account services to independent financial advisors. This acquisition confirms the Company's commitment to provide customized investment solutions to individuals and institutions through independent financial advisors in the separate account industry.

In August 2002, the Company signed a definitive agreement to acquire EMAT based in Malvern, Pennsylvania. EMAT is the leading provider of processing services for individually managed accounts. This acquisition confirms the Company's commitment to provide a wide range of customized investment processing solutions to its worldwide network of mutual fund companies, banks and money managers.

3. 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 either 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.

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

| (In millions) | Six months ended June 30, | |
|------------------------------|------------------------------|-------|
| | 2002 | 2001 |
| | ---- | ---- |
| Balance, Beginning of Period | \$616 | \$616 |
| Charge-Offs | (76) | (64) |
| Recoveries | 6 | 4 |
| | ---- | ---- |
| Net Charge-Offs | (70) | (60) |
| Provision | 70 | 60 |
| | ---- | ---- |
| Balance, End of Period | \$616 | \$616 |
| | ==== | ==== |

4. Capital Transactions

As of July 31, 2002, the Company has approximately 4 million common shares remaining to repurchase under its 16 million share buyback programs. During the second quarter of 2002, the Company filed a new shelf registration statement. At July 31, 2002, the registration statement has a remaining capacity of approximately \$2.4 billion of debt, preferred stock, preferred trust securities, or common stock.

5. New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No.143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company does not expect the adoption of this pronouncement to have an impact on its results of operations or financial condition.

In August 2001, the FASB issued Statement of Financial Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 was effective for financial statements issued for fiscal years beginning after December 15, 2001. The standard addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 became effective for the Company on January 1, 2002. The adoption of this standard had no impact on the Company's results of operations or financial condition.

See footnote 8 regarding the impact of Statement of Financial Accounting Standards No.142 "Goodwill and Other Intangible Assets".

In November 2001, the FASB issued Emerging Issues Task Force ("EITF") No. 01-14, "Income Statement Characterization of Reimbursements Received for Out-Of-Pocket Expenses Incurred." This guidance, effective January 1, 2002 requires companies to recognize the reimbursement of client-related expenses as revenue and the costs as operating expense. Historically, the Company has netted these reimbursements against the related operating expenses. Client reimbursements for out-of-pocket expenses are reflected in securities servicing and private client services and asset management fee revenue in the accompanying financial statements. Prior periods have been reclassified to reflect this new presentation which has resulted in an increase to noninterest income and a corresponding increase to noninterest expenses of \$7 million and \$9 million for the three months ending June 30, 2002 and 2001 and \$14 million and \$16 million for the year-to-date periods ending June 30, 2002 and 2001.

6. Earnings Per Share

The following table illustrates the computations of basic and diluted earnings per share for the three month and six month periods ended June 30, 2002 and 2001:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| (In millions, except per share amounts) | 2002 | 2001 | 2002 | 2001 |
| Net Income (1) | \$361 | \$385 | \$723 | \$769 |
| Basic Weighted Average Shares Outstanding | 722 | 731 | 722 | 731 |
| Shares Issuable on Exercise of Employee Stock Options | 7 | 11 | 7 | 12 |
| Diluted Weighted Average Shares Outstanding | 729 | 742 | 729 | 743 |
| Basic Earnings Per Share: | \$ 0.50 | \$ 0.53 | \$ 1.00 | \$ 1.05 |
| Diluted Earnings Per Share: | 0.50 | 0.52 | 0.99 | 1.03 |

<FN>

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

</FN>

7. Commitments and Contingent Liabilities

In the ordinary course of business, there are various legal claims pending against the Company and its subsidiaries. In the opinion of management, liabilities arising from such claims, if any, would not have a material effect upon the Company's consolidated financial statements.

8. Goodwill and Intangibles

Effective January 1, 2002, a new accounting standard requires the Company to test goodwill and indefinite lived intangible assets for impairment rather than amortize them. A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization net of the related tax effect follows:

| (In millions, except per share amounts) | 2001 | 2000 | 1999 | Six Months Ended June 30, 2001 | Three Months Ended June 30, 2001 |
|--|------------------|------------------|------------------|--------------------------------------|--|
| | ----- | ----- | ----- | ----- | ----- |
| Net Income | \$1,343 | \$1,429 | \$1,739 | \$ 769 | \$ 385 |
| Add: Goodwill Amortization, Net of Tax | 73 | 85 | 77 | 36 | 16 |
| Adjusted Net Income | \$1,416 ===== | \$1,514 ===== | \$1,816 ===== | \$ 805 ===== | \$ 401 ===== |
| Basic Earnings Per Common Share: | | | | | |
| Net Income | \$1.84 | \$1.95 | \$2.31 | \$1.05 | \$0.53 |
| Goodwill Amortization, Net of Tax | 0.10 | 0.12 | 0.10 | 0.05 | 0.02 |
| Adjusted Net Income | \$1.94 ===== | \$2.07 ===== | \$2.41 ===== | \$1.10 ===== | \$0.55 ===== |
| Diluted Earnings Per Common Share: | | | | | |
| Net Income | \$1.81 | \$1.92 | \$2.27 | \$1.03 | \$0.52 |
| Goodwill Amortization, Net of Tax | 0.10 | 0.11 | 0.10 | 0.05 | 0.02 |
| Adjusted Net Income | \$1.91 ===== | \$2.03 ===== | \$2.37 ===== | \$1.08 ===== | \$0.54 ===== |

Goodwill by segment for the quarter ended June 30, 2002 is as follows:

| (In millions) | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Consolidated Total |
|--------------------------------|---|----------------------|-------------------|----------------------|-----------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance as of June 30, 2002 | \$2,158 ===== | \$31 === | \$109 ===== | \$ - === | \$2,298 ===== |

The Company's business segments are tested annually for goodwill impairment. The Company completed its initial evaluation of goodwill for impairment and determined that no impairment loss was required.

Intangible Assets

| (In millions) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted Average Amortization Period in Years |
|-------------------|-----------------------------|-----------------------------|---------------------------|--|
| | ----- | ----- | ----- | ----- |
| Intangible Assets | \$104 | \$(30) | \$74 | 14 |

The aggregate amortization expense of intangibles and goodwill was \$2 million and \$25 million for the quarters ended June 30, 2002 (intangibles only) and 2001, respectively and \$4 million and \$54 million for the six months ended June 30, 2002 (intangibles only) and 2001, respectively. Estimated amortization expense for the next five years is as follows:

| (In millions) | For the year ended December 31, | Amortization Expense |
|---------------|------------------------------------|-------------------------|
| | ----- | ----- |
| | 2002 | \$ 8 |
| | 2003 | 9 |
| | 2004 | 9 |
| | 2005 | 9 |
| | 2006 | 9 |

Item 2. Management's Discussion and Analysis of Financial Condition and

Results of Operations

The Company's actual results of future operations may differ from those set forth in certain forward looking statements contained herein. Refer to further discussion under the heading "Forward Looking Statements".

The Company reported second quarter 2002 net income of \$361 million or 50 cents per diluted share compared with \$385 million or 52 cents per diluted share in the second quarter of 2001. Net income for the first six months was \$723 million or 99 cents per diluted share compared with \$769 million or \$1.03 per diluted share last year. Second quarter 2002 results included \$16 million of pre-tax severance expense associated with a 400 person staff reduction, which reduced net income by 1 cent per share.

The Company's fee-based businesses performed well in a lackluster global capital markets environment. Compared with the first quarter of 2002, second quarter securities servicing fee revenues increased 5% to \$478 million. Private client services and asset management fees were \$88 million, up 6% versus the first quarter. These increases in securities servicing and private client services and asset management were driven by core growth and acquisitions. The Company is consistently winning new business, contributing to its top line growth and representing further market share gains. The Company's continued focus on fee-based businesses resulted in noninterest income growing to 67% of total revenue in the second quarter, compared with 67% last quarter.

The Company continues to execute its long-term growth strategy through investments in technology, internal product development, and strategic acquisitions. These initiatives have added clients, opened new markets, and expanded its suite of global product offerings for both issuers and investors. The Company expects this to result in meaningful operating leverage when the capital markets environment improves.

Fees from the Company's securities servicing businesses increased 5% to \$478 million for the second quarter from \$454 million last quarter and increased 8% from \$443 million in the prior year. Core growth in the businesses accounted for approximately half of the sequential quarter revenue growth, which annualizes to an 11% growth rate. The remaining growth resulted largely from the full quarter benefit of acquisitions closed in the first quarter. Strong performers for the quarter include custody, corporate trust, broker-dealer services, and stock transfer. Custody growth resulted from domestic new business wins and increased customer activity, particularly in Europe and Asia. Corporate trust benefited from strong fixed-income issue volume, particularly in the corporate and municipal markets. Broker-dealer services were positively impacted by new business wins, strong fixed income activity and the increased use of the Company's global collateral management system. Stock transfer growth resulted from a large corporate action related fee and several new business wins. The Company continues to be the world's leading custodian with assets of \$6.6 trillion, including \$1.8 trillion of cross-border custody assets.

Private client services and asset management fees increased to \$88 million for the second quarter of 2002, up 6% from \$83 million last quarter and up 10% from \$80 million in the second quarter of 2001. Strong sequential quarter growth primarily benefited from the acquisitions of Gannet Welsh & Kotler and Beacon Fiduciary Advisors, both of which closed during the quarter. Fees were also favorably impacted by continued strong flows into alternative investment funds offered by the Company's Ivy Asset Management subsidiary and demand for the Company's retail investment products.

Foreign exchange and other trading revenues were \$72 million in the second quarter of 2002 compared to \$63 million last quarter and \$98 million in the second quarter of 2001. Relative to a year ago, second quarter foreign exchange activity was negatively impacted by continuation of the first quarter's lower volatility and narrow spreads. However, the weakening trend of the dollar led to a higher volume of client hedging activity and greater volatility as the second quarter progressed. Other trading revenues decreased as a result of a stable interest rate environment, which negatively impacted the Company's interest rate hedging and risk management businesses. In the second quarter of 2001, other trading revenues were also favorably impacted by revenues from seasonal arbitrage strategies related to the Company's securities lending business.

Net interest income on a taxable equivalent basis for the second quarter was \$436 million, up from \$425 million last quarter reflecting growth in the Company's investment securities portfolio and improved pricing on loan and deposit products.

The provision for credit losses remained steady at \$35 million in the second quarter. The Company continues to make significant progress in its program to reduce corporate loan exposures, as it reallocates capital towards its fee-based businesses. At June 30, 2002, exposures related to the Company's emerging telecom accelerated loan disposition program had been reduced to \$63 million with related outstandings of \$53 million.

Return on average common equity for the second quarter of 2002 was 22.59% compared with 23.76% in the first quarter of 2002 and 25.44% in the second quarter of 2001. Return on average assets for the second quarter of 2002 was 1.82% compared with 1.84% in the first quarter of 2002 and 2.01% in the second quarter of 2001. For the first six months of 2002, return on average common equity was 23.16% compared with 25.68% in 2001. Return on average assets was 1.83% for the first six months of 2002 compared with 2.02% in 2001.

NONINTEREST INCOME

| | 2nd Quarter | 1st Quarter | 2nd Quarter | Year-to-Date | |
|-----------------------------|----------------|----------------|----------------|--------------|---------|
| (In millions) | 2002 | 2002 | 2001 | 2002 | 2001 |
| Servicing Fees | | | | | |
| Securities | \$478 | \$454 | \$443 | \$ 932 | \$ 906 |
| Global Payment Services | 71 | 73 | 72 | 144 | 141 |
| | 549 | 527 | 515 | 1,076 | 1,047 |
| Private Client Services and | | | | | |
| Asset Management Fees | 88 | 83 | 80 | 171 | 161 |
| Service Charges and Fees | 93 | 83 | 95 | 176 | 185 |
| Foreign Exchange and | | | | | |
| Other Trading Activities | 72 | 63 | 98 | 134 | 181 |
| Securities Gains | 25 | 31 | 46 | 56 | 92 |
| Other | 28 | 31 | 31 | 60 | 64 |
| Total Noninterest Income* | \$855 | \$818 | \$865 | \$1,673 | \$1,730 |

<FN>

* The Company adopted a new accounting pronouncement related to reimbursable expenses effective January 1, 2002 and reclassified prior year results. As a result, noninterest income increased by \$7 million and \$9 million in the second quarter of 2002 and 2001 and by \$14 million and \$16 million in the first half of 2002 and 2001.

</FN>

Total noninterest income for the second quarter of 2002 increased by 5% compared with the first quarter of 2002 and decreased 1% compared with the second quarter of 2001. Securities servicing fees increased by 5% from the prior quarter and 8% from one year ago, with revenue growth resulting from core growth and acquisitions. Global payment services fees were essentially flat on both a sequential quarter and a year-over-year basis as growth in cash management was offset by modest declines in trade finance. Private client services and asset management fees were up 6% from the prior quarter and 10% from one year ago, with growth resulting from acquisitions and new business in alternative and retail investment products. Service charges and fees were up 12% from the prior quarter and down slightly from one year ago. The sequential quarter increase reflects a pick-up in loan syndication and capital markets fees from the first quarter. Foreign exchange and other trading revenues were up 14% from the prior quarter and down 27% from one year ago. Securities gains of \$25 million in the second quarter were down from \$31 million in the prior quarter and \$46 million one year ago, reflecting the Company's capital allocation initiatives away from equity investing, as well as weak equity market conditions.

NET INTEREST INCOME

| (Dollars in millions on a tax equivalent basis) | 2nd | 1st | 2nd | Year-to-Date | |
|--|---------|---------|---------|--------------|-------|
| | Quarter | Quarter | Quarter | 2002 | 2001 |
| | ----- | ----- | ----- | ----- | ----- |
| Net Interest Income | \$436 | \$425 | \$446 | \$861 | \$887 |
| Net Interest Rate Spread | 2.31% | 2.30% | 2.00% | 2.31% | 1.89% |
| Net Yield on Interest Earning Assets | 2.65 | 2.63 | 2.79 | 2.64 | 2.77 |

Net interest income on a taxable equivalent basis was \$436 million in the second quarter of 2002 compared with \$425 million in the first quarter of 2002 and \$446 million in the second quarter of 2001. The net interest rate spread was 2.31% in the second quarter of 2002, compared with 2.30% in the first quarter of 2002 and 2.00% one year ago. The net yield on interest earning assets was 2.65% compared with 2.63% in the first quarter of 2002 and 2.79% in last year's second quarter.

The increase in net interest income from the first quarter is primarily due to growth in the Company's highly-rated investment securities portfolio, improved pricing on loan and deposit products, and an extra day in the quarter. During the quarter, the Company adopted a neutral position in terms of its exposure to changing interest rates.

For the first six months of 2002, net interest income on a taxable equivalent basis amounted to \$861 million compared with \$887 million in the first half of 2001. The year-to-date net interest rate spread was 2.31% in 2002 compared with 1.89% in 2001, while the net yield on interest earning assets was 2.64% in 2002 and 2.77% in 2001.

Interest income would have been increased by \$4 million and \$2 million for the second quarters of 2002 and 2001 and \$8 million and \$5 million for the first six months of 2002 and 2001 if loans on nonaccrual status at June 30, 2002 and 2001 had been performing for the entire period.

NONINTEREST EXPENSE AND INCOME TAXES

Noninterest expense for the second quarter of 2002 was \$696 million compared with \$649 million in the first quarter of 2002 and \$664 million in 2001. Of the \$47 million in sequential quarter expense increase, \$16 million relates to severance and \$12 million relates to acquisitions. The growth in core expenses annualizes to an 11% rate, driven by higher technology spending, incentive compensation and other variable expenses.

As a result of applying a new accounting pronouncement related to goodwill and intangibles, amortization in the second quarter and the first six months of 2002 declined to \$2 million and \$4 million compared with \$25 million and \$54 million in 2001.

The efficiency ratio for the second quarter of 2002 was 55.0% compared with 53.5% in the first quarter of 2002 and 52.5% in the second quarter of 2001. For the first half of 2002, the efficiency ratio was 54.3% compared with 52.4% last year. Excluding severance costs, the efficiency ratio for the second quarter would have been 53.7%.

The effective tax rates for the second quarter and the first six months of 2002 were 34.0% and 33.8% compared with 36.0% in the second quarter and 36.1% in the first six months of 2001. The decline in the rate from a year ago primarily reflects fewer nondeductible expenses as well as the benefit from federal Section 29 synthetic fuel tax credits.

CAPITAL

Regulators establish certain levels of capital for bank holding companies and banks, including the Company and The Bank of New York ("the Bank"), in accordance with established quantitative measurements. In order for the Company 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 Company are expected by the regulators to be well capitalized. As of June 30, 2002 and 2001, 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:

| | June 30, 2002 | | June 30, 2001 | | Company Targets | Well Capitalized Guidelines | Adequately Capitalized Guidelines |
|---------------------------|---------------|-------|---------------|-------|--------------------|-----------------------------------|---|
| | Company | Bank | Company | Bank | | | |
| Tier 1* | 7.70% | 7.59% | 8.07% | 7.62% | 7.75% | 6% | 4% |
| Total Capital** | 11.48 | 11.21 | 12.07 | 11.05 | 11.75 | 10 | 8 |
| Leverage | 6.82 | 6.70 | 7.40 | 6.92 | 7.00 | 5 | 3-5 |
| Tangible Common Equity | 5.41 | 6.07 | 5.56 | 6.95 | 5.25-6.00 | | |

<FN>

* Tier 1 capital consists, generally, of common equity and certain qualifying preferred stock, less goodwill.

**Total Capital consists of Tier 1 capital plus Tier 2 capital. Tier 2 capital consists, generally, of certain qualifying preferred stock and subordinated debt and a portion of the loan loss allowance.

</FN>

If a bank holding company or bank fails to qualify as "adequately capitalized", regulatory sanctions and limitations are imposed.

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 also 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 \$14.3 billion and \$11.0 billion on an average basis for the first six months of 2002 and 2001. Stable foreign deposits, primarily from the Company's European based securities servicing business, were \$24.8 billion and \$26.4 billion for the first six months of 2002 and 2001. Savings and other time deposits were \$9.7 billion on a year-to-date average basis at June 30, 2002 compared to \$9.5 billion at June 30, 2001. A significant reduction in the Company's securities businesses would reduce its access to foreign deposits.

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

At June 30, 2002, the amount of dividends the Bank could pay to the Parent and remain in compliance with federal bank regulatory requirements was \$466 million. This dividend capacity would increase in the remainder of 2002 to the extent of net income, less dividends. Nonbank subsidiaries of the Parent have liquid assets of approximately \$900 million. These assets could be liquidated and the proceeds delivered by dividend or loaned to the Parent.

The Company has a line of credit with the Bank, which is subject to limits imposed by federal banking law. At June 30, 2002, the Parent could use the subsidiaries' liquid securities as collateral to allow it to borrow \$436 million rather than liquidate the securities and loan or dividend the proceeds to the Parent and remain in compliance with federal banking regulations. The Parent had no borrowings from the Bank at June 30, 2002.

At June 30, 2002, the Parent's quarterly average commercial paper borrowings were \$66 million compared with \$340 million in 2001. Commercial paper outstandings were \$127 million and \$320 million at June 30, 2002 and 2001. At June 30, 2002, the Parent had cash of \$866 million.

The Parent has back-up lines of credit of \$350 million at financial institutions. This line of credit matures in October 2002. The Parent expects to enter into a replacement line of credit on or before the maturity. There were no borrowings under the line of credit at June 30, 2002 and June 30, 2001.

The Parent also has the ability to access the capital markets. The Parent has a shelf registration statement with a remaining capacity of \$2.4 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 July 31, 2002 were as follows:

| | Parent Commercial Paper | Parent Subordinated Long-Term Debt | Parent Senior Long-Term Debt | The Bank of New York Long-Term Deposits |
|----------------------|-------------------------------|--|------------------------------------|--|
| | ----- | ----- | ----- | ----- |
| Standard & Poor's | A-1 | A | A+ | AA- |
| Moody's | P1 | A-1 | Aa3 | Aa2 |
| Fitch | F1+ | A+ | AA- | AA |

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 approximately \$600 million of long-term debt that becomes due before December 31, 2002. In addition, at June 30, 2002 the Parent has the option to call \$350 million of debt in the remainder of 2002 and expects to 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 Parent has \$400 million of trust preferred securities that has been called for redemption September 1, 2002. As a result, these securities no longer qualify as Tier 1 Capital.

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 June 30, 2002 and 2001 was 101.58% and 101.40%. 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.

TRADING ACTIVITIES

The fair value and notional amounts of the Company's financial instruments held for trading purposes at June 30, 2002 and June 30, 2001 are as follows:

| (In millions) | June 30, 2002 | | | 2nd Quarter 2002 Average | |
|--|--------------------|----------------|----------------|-----------------------------|----------------|
| | Notional Amount | Fair Value | | Fair Value | |
| | | Assets | Liabilities | Assets | Liabilities |
| Trading Account | | | | | |
| Interest Rate Contracts: | | | | | |
| Futures and Forward | | | | | |
| Contracts | \$ 43,100 | \$ 98 | \$ - | \$ 81 | \$ - |
| Swaps | 144,429 | 1,423 | 811 | 1,448 | 881 |
| Written Options | 123,597 | - | 1,066 | - | 1,023 |
| Purchased Options | 44,083 | 188 | - | 174 | - |
| Foreign Exchange Contracts: | | | | | |
| Swaps | 1,969 | - | - | - | - |
| Written Options | 15,278 | - | 166 | - | 83 |
| Purchased Options | 17,611 | 68 | - | 79 | - |
| Commitments to Purchase and Sell Foreign Exchange | 59,371 | 825 | 835 | 437 | 463 |
| Debt Securities | - | 3,938 | 142 | 4,473 | 37 |
| Credit Derivatives | 2,075 | 8 | 1 | 17 | 7 |
| Equity Derivatives | - | 29 | 12 | 27 | 7 |
| Total Trading Account | | \$6,577 | \$3,033 | \$6,736 | \$2,501 |

| (In millions) | June 30, 2001 | | | 2nd Quarter 2001 Average | |
|--|--------------------|----------------|----------------|-----------------------------|----------------|
| | Notional Amount | Fair Value | | Fair Value | |
| | | Assets | Liabilities | Assets | Liabilities |
| Trading Account | | | | | |
| Interest Rate Contracts: | | | | | |
| Futures and Forward | | | | | |
| Contracts | \$ 39,741 | \$ 2 | \$ - | \$ - | \$ - |
| Swaps | 113,972 | 842 | 342 | 986 | 467 |
| Written Options | 92,828 | - | 845 | - | 887 |
| Purchased Options | 39,917 | 125 | - | 135 | - |
| Foreign Exchange Contracts: | | | | | |
| Swaps | 1,297 | - | - | - | - |
| Written Options | 10,953 | - | 24 | - | 76 |
| Purchased Options | 14,563 | 68 | - | 109 | - |
| Commitments to Purchase and Sell Foreign Exchange | 54,974 | 538 | 540 | 599 | 596 |
| Debt Securities | - | 8,302 | 9 | 8,992 | 10 |
| Credit Derivatives | 1,860 | 9 | 3 | 6 | 3 |
| Equity Derivatives | - | 18 | - | 292 | 312 |
| Total Trading Account | | \$9,904 | \$1,763 | \$11,119 | \$2,351 |

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. The VAR methodology captures, based on certain assumptions, 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. As the VAR methodology does not evaluate risk attributable to extraordinary financial, economic or other occurrences, the risk assessment process includes a number of stress scenarios based upon the risk factors in the portfolio and management's assessment of market conditions. Additional stress scenarios based upon historic market events are also tested.

The following table indicates the calculated VAR amounts for the trading portfolio for the periods indicated. During these periods, the daily trading loss did not exceed the calculated VAR amounts on any given day.

| (In millions) | 2nd Quarter 2002 | | | Year-to-Date 2002 | | | |
|-------------------|------------------|---------|---------|-------------------|---------|---------|---------|
| | Average | Minimum | Maximum | Average | Minimum | Maximum | 6/30/02 |
| Interest rate | \$4.8 | \$3.5 | \$6.6 | \$5.0 | \$3.4 | \$9.2 | \$4.6 |
| Foreign Exchange | 1.5 | 0.7 | 3.8 | 1.2 | 0.6 | 3.8 | 0.9 |
| Equity | - | - | 1.1 | - | - | 1.1 | 0.8 |
| Diversification | (2.1) | NM | NM | (1.8) | NM | NM | (1.8) |
| Overall Portfolio | 4.2 | 3.0 | 7.2 | 4.4 | 3.0 | 8.3 | 4.5 |

| (In millions) | 2nd Quarter 2001 | | | Year-to-Date 2001 | | | |
|-------------------|------------------|---------|---------|-------------------|---------|---------|---------|
| | Average | Minimum | Maximum | Average | Minimum | Maximum | 6/30/01 |
| Interest rate | \$4.4 | \$2.9 | \$6.4 | \$4.5 | \$2.6 | \$6.4 | \$5.8 |
| Foreign Exchange | 1.2 | 0.7 | 1.9 | 1.2 | 0.6 | 2.7 | 0.8 |
| Equity | - | - | 0.3 | - | - | 0.3 | - |
| Diversification | (2.0) | NM | NM | (2.0) | NM | NM | (2.2) |
| Overall Portfolio | 3.6 | 2.3 | 5.9 | 3.7 | 2.3 | 6.1 | 4.4 |

<FN>

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.

</FN>

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 2001 Annual Report on Form 10-K. Two of the Company's more critical accounting policies are those related to the allowance for credit losses and to the valuation of derivatives and securities where quoted market prices are not available.

ALLOWANCE FOR CREDIT LOSSES

The allocated portion of the allowance for credit losses is principally determined using an expected loss model driven by Probability of Default and Loss Given Default ratings. Ratings are assigned after analyzing the credit quality of each borrower and the collateral/structure of each individual asset. These ratings are periodically compared to internal company and external rating agency default and loss databases to ensure consistency. Other factors used in establishing the allocated portion of the allowance include forecasts of future cash flows and maturity.

The Company's unallocated allowance is based on management's judgment. Factors that influence this judgment include:

- 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

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.

VALUATION OF DERIVATIVES AND SECURITIES WHERE QUOTED MARKET PRICES ARE NOT AVAILABLE

When quoted market prices are not available, derivatives and securities values are determined based on discounted cash flow analysis, comparison to similar instruments, and the use of financial models. Discounted cash flow analysis is dependent upon estimated future cash flows and the level of interest rates. Model-based pricing uses inputs of observable prices for interest rates, foreign exchange rates, option volatilities and other factors. Models are benchmarked and validated by external parties.

These valuation methods could expose the Company to materially different results should the models used or underlying assumptions be inaccurate.

NONPERFORMING ASSETS

| (Dollars in millions) | 6/30/02 | 3/31/02 | Change 6/30/02 vs. 3/31/02 |
|--------------------------------|---------|---------|----------------------------------|
| | ----- | ----- | ----- |
| Loans: | | | |
| Commercial | \$184 | \$187 | \$(3) |
| Foreign | 97 | 67 | 30 |
| Other | 34 | 20 | 14 |
| | ---- | ---- | ---- |
| Total Nonperforming Loans | 315 | 274 | 41 |
| Other Real Estate | 1 | 1 | - |
| | ---- | ---- | ---- |
| Total Nonperforming Assets | \$316 | \$275 | \$41 |
| | ==== | ==== | ==== |
| Nonperforming Assets Ratio | 0.9% | 0.8% | |
| Allowance/Nonperforming Loans | 195.7 | 225.1 | |
| Allowance/Nonperforming Assets | 194.9 | 223.8 | |

Nonperforming assets totaled \$316 million at June 30, 2002, compared with \$275 million at March 31, 2002 and \$245 million at June 30, 2001. The increase in foreign nonperforming loans primarily reflects Argentine loans which became nonperforming in the second quarter of 2002. The increase in other nonperforming loans primarily reflects a private banking loan placed on nonaccrual in the second quarter of 2002.

As a result of continued weakness in the economy, the Company expects nonperforming loans to continue to rise in the third and fourth quarters of 2002. The Company has a large exposure in aggregate to the subsidiaries of a major cable operator that has filed for voluntary bankruptcy. The Company currently anticipates that it will achieve full recovery on this exposure; however, this exposure may be classified as nonperforming at some future date.

IMPAIRED LOANS

The table below sets forth information about the Company's impaired loans. The Company uses the discounted cash flow method as its primary method for valuing its impaired loans:

| (Dollars in millions) | 6/30/02 | 3/31/02 |
|---|---------|---------|
| | ----- | ----- |
| Impaired Loans with an Allowance | \$246 | \$208 |
| Impaired Loans without an Allowance(1) | 23 | 30 |
| | ---- | ---- |
| Total Impaired Loans | \$269 | \$238 |
| | ==== | ==== |
| Allowance for Impaired Loans(2) | \$110 | \$ 77 |
| Average Balance of Impaired Loans during the Quarter | 245 | 212 |
| Interest Income Recognized on Impaired Loans during the Quarter | 0.6 | 0.7 |

- (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.

CREDIT LOSS PROVISION AND NET CHARGE-OFFS

| | 2nd Quarter | 1st Quarter | 2nd Quarter | Year-to-date | |
|----------------------------|----------------|----------------|----------------|--------------|--------|
| (In millions) | 2002 | 2002 | 2001 | 2002 | 2001 |
| Provision | \$ 35 | \$ 35 | \$ 30 | \$ 70 | \$ 60 |
| Net Charge-offs: | | | | | |
| Commercial | \$(17) | \$(30) | \$(26) | \$(47) | \$(54) |
| Foreign | - | 1 | - | 1 | - |
| Other | (14) | - | (1) | (14) | (1) |
| Consumer | (4) | (6) | (3) | (10) | (5) |
| Total | \$(35) | \$(35) | \$(30) | \$(70) | \$(60) |
| Other Real Estate Expenses | \$ - | \$ - | \$ - | \$ - | \$ 2 |

The allowance for credit losses 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 borrowers, 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 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 assignment of loss factors to the remaining pools of credit exposure. The loss factors are based on the expected average credit losses. Loss factors are periodically compared to rating agency and other default data bases to determine their validity. Commercial loans over \$1 million are individually analyzed before being assigned to a risk pool. All current consumer loans are included in the pass rated consumer pools.

The fourth element - an 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

Based on a review of these elements, the allowance for credit losses was \$616 million, or 1.71% of loans at June 30, 2002, compared with \$616 million, or 1.74% of loans at March 31, 2002, and \$616 million, or 1.68% of loans at June 30, 2001. The ratio of the allowance to nonperforming assets was 194.9% at June 30, 2002, compared with 223.8% at March 31, 2002, and 251.0% at June 30, 2001. Included in the Company's allowance for credit losses at June 30, 2002 is an allocated transfer risk reserve related to Argentina of \$31 million.

Applying the four elements to the various segments of the loan portfolio results in an allocation of the allowance for credit losses as follows:

| | 6/30/02 ----- | 3/31/02 ----- |
|-------------|------------------|------------------|
| Domestic | | |
| Real Estate | 4% | 6% |
| Commercial | 72 | 70 |
| Consumer | 1 | 1 |
| Foreign | 13 | 9 |
| Unallocated | 10 | 14 |
| | --- | --- |
| | 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.

WORLD TRADE CENTER DISASTER

The Company's insurance claim has been segmented into four major components. As of the date of this filing, the Company has submitted claims or presented estimated losses for all of the categories to its insurance carriers. There is still a verification and negotiation process to take place but the Company expects to receive continued payments over the coming months.

The Company has developed a migration plan for returning to its downtown facilities. The reoccupation has begun and is expected to be completed by the end of the third quarter. The Company's diversification plans include moving some staff to other locations including new space in the metropolitan area as well as to growth centers in Syracuse, New York and Orlando, Florida. In the meantime, the Company continues to operate from several interim facilities in Manhattan. As the Company vacates the interim facilities it offers them for sublet. The Company expects that the loss on sublease could exceed \$200 million, and that this amount will be covered by insurance.

During the second quarter, the Company incurred \$31 million of expenses associated with its interim operating facilities which were netted against an offsetting insurance recovery. In addition, during the second quarter the Company completed its assessment of damaged equipment from the WTC disaster and wrote off an incremental \$38 million of technology equipment, against which it booked an offsetting insurance recovery. Since the WTC disaster, the Company has recorded expenses and lost revenue of \$334 million, insurance recoveries of \$267 million, and received payments on its claim of \$275 million. Additional recoveries will be reflected in the future, largely related to interim space costs.

POTENTIAL IMPACT OF LOWER EQUITY PRICE LEVELS

As of the market close on August 9th, the S&P 500 has declined by 8.2% and the Dow Jones Industrial Average has declined by 5.4% from June 30th levels. The continued deterioration in the equity markets has several potential negative effects on the Company.

The Company holds investments in portfolios of 1) equity securities of other financial institutions, 2) LBO sponsor-managed private equities and 3) fixed income investment securities in part to generate securities gains. The weakness in the equity markets could negatively impact the Company's ability to sustain securities gains at the same levels as occurred in the first two quarters of 2002 (\$31 and \$25 million, respectively).

The lower equity price levels also affect selected other revenue categories of the Company, including private client services/asset management fees, as well as fees of certain securities servicing business lines, such as custody and mutual fund services. In general, however, the Company's overall securities servicing business revenue generation is more dependent on market volumes and volatility than asset price levels, both of which have trended up in the third quarter-to-date.

Lastly, the Company has an overfunded pension plan which has generated sizable pension credits in recent years. Lower actual returns on assets, potentially combined with a projected lower rate of return on plan assets going forward, could result in smaller pension credits in 2003 and beyond.

SEGMENT PROFITABILITY

Segment Data

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

The Servicing and Fiduciary businesses segment provides a broad array of fee-based services. This segment includes the Company's securities servicing, global payment services, and private client services and asset management businesses. Securities servicing includes global custody, securities clearance, mutual funds, unit investment trust, securities lending, depository receipts, corporate trust, stock transfer and execution services. Global payment services products primarily relate to funds transfer, cash management and trade finance. Private client services and asset management provide traditional banking and trust services to affluent clients and asset management to institutional and private clients.

The Corporate Banking segment focuses on providing lending services, such as term loans, lines of credit, asset based financings, and commercial mortgages, to the large public and private corporations nationwide, as well as public and private mid-size businesses in the New York metropolitan area. Special industry groups focus on financial institutions, securities, insurance, media and telecommunications, energy, real estate, retailing, automotive, and government banking institutions. Through BNY Capital Markets, the Company provides syndicated loans, bond underwriting, private placements of corporate debt and equity securities, and merger, acquisition, and advisory services.

The Retail Banking segment includes consumer lending, residential mortgage lending, and retail deposit services. The Company operates 342 branches in 23 counties in three states.

The Financial Markets segment includes trading of foreign exchange and interest rate products, investing and leasing activities, and treasury services to other segments. This segment offers a comprehensive array of multi-currency hedging and yield enhancement strategies.

The segments contributed to the Company's profitability as follows:

| In Millions For the Quarter Ended June 30, 2002 | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Reconciling Items | Consolidated Total |
|---|---|----------------------|-------------------|----------------------|----------------------|-----------------------|
| Net Interest Income | \$120 | \$102 | \$122 | \$ 91 | \$(12) | \$423 |
| Provision for Credit Losses | - | 26 | 3 | - | 6 | 35 |
| Noninterest Income | 691 | 73 | 28 | 64 | (1) | 855 |
| Noninterest Expense | 486 | 50 | 78 | 21 | 61 | 696 |
| Income Before Taxes | \$325 | \$ 99 | \$ 69 | \$134 | \$(80) | \$547 |
| Average Assets | \$8,994 | \$22,979 | \$5,108 | \$40,303 | \$2,303 | \$79,687 |

| In Millions For the Quarter Ended June 30, 2001 | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Reconciling Items | Consolidated Total |
|---|---|----------------------|-------------------|----------------------|----------------------|-----------------------|
| Net Interest Income | \$137 | \$127 | \$124 | \$ 62 | \$(20) | \$430 |
| Provision for Credit Losses | - | 30 | 2 | 1 | (3) | 30 |
| Noninterest Income | 675 | 78 | 28 | 70 | 14 | 865 |
| Noninterest Expense | 434 | 56 | 74 | 19 | 81 | 664 |
| Income Before Taxes | \$378 | \$119 | \$ 76 | \$112 | \$(84) | \$601 |
| Average Assets | \$9,067 | \$26,997 | \$4,422 | \$34,327 | \$1,898 | \$76,711 |

| In Millions For the Six Months Ended June 30, 2002 | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Reconciling Items | Consolidated Total |
|--|---|----------------------|-------------------|----------------------|----------------------|-----------------------|
| Net Interest Income | \$ 241 | \$207 | \$235 | \$176 | \$(24) | \$ 835 |
| Provision for Credit Losses | - | 53 | 6 | - | 11 | 70 |
| Noninterest Income | 1,350 | 142 | 58 | 117 | 6 | 1,673 |
| Noninterest Expense | 946 | 96 | 159 | 43 | 101 | 1,345 |
| Income Before Taxes | \$ 645 | \$200 | \$128 | \$250 | \$(130) | \$1,093 |
| Average Assets | \$8,982 | \$23,425 | \$4,960 | \$40,032 | \$2,249 | \$79,648 |

| In Millions For the Six Months Ended June 30, 2001 | Servicing and Fiduciary Businesses | Corporate Banking | Retail Banking | Financial Markets | Reconciling Items | Consolidated Total |
|--|---|----------------------|-------------------|----------------------|----------------------|-----------------------|
|--|---|----------------------|-------------------|----------------------|----------------------|-----------------------|

| | | | | | | |
|--------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|
| Net Interest Income | \$ 303 | \$255 | \$252 | \$ 88 | \$ (41) | \$ 857 |
| Provision for Credit Losses | - | 61 | 3 | - | (4) | 60 |
| Noninterest Income | 1,354 | 155 | 55 | 144 | 22 | 1,730 |
| Noninterest Expense | 873 | 115 | 151 | 35 | 150 | 1,324 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Income Before Taxes | \$ 784 | \$234 | \$153 | \$197 | \$(165) | \$1,203 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Average Assets | \$8,836 | \$27,353 | \$4,445 | \$34,223 | \$1,839 | \$76,696 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Segment Highlights

Servicing and Fiduciary Businesses

In the second quarter of 2002, noninterest income was \$691 million compared with \$675 million in 2001.

Fees from the Company's securities servicing businesses increased 5% to \$478 million for the second quarter from \$454 million last quarter and increased 8% from \$443 million in the prior year. Core growth in the businesses accounted for approximately half of the sequential quarter revenue growth, which annualizes to an 11% growth rate. The remaining growth resulted largely from the full quarter benefit of acquisitions closed in the first quarter. Strong performers for the quarter include custody, corporate trust, broker-dealer services, and stock transfer. Custody growth resulted from domestic new business wins and increased customer activity, particularly in Europe and Asia. Corporate trust benefited from strong fixed-income issue volume, particularly in the corporate and municipal markets. Broker-dealer services were positively impacted by new business wins, strong fixed income activity and the increased use of the Company's global collateral management system. Stock transfer growth resulted from a large corporate action related fee and several new business wins. The Company continues to be the world's leading custodian with assets of \$6.6 trillion, including \$1.8 trillion of cross-border custody assets.

Private client services and asset management fees increased to \$88 million for the second quarter of 2002, up 6% from \$83 million last quarter and up 10% from \$80 million in the second quarter of 2001. Strong sequential quarter growth primarily benefited from the acquisitions of Gannet Welsh & Kotler and Beacon Fiduciary Advisors, both of which closed during the quarter. Fees were also favorably impacted by continued strong flows into alternative investment funds offered by the Company's Ivy Asset Management subsidiary and demand for the Company's retail investment products. Assets under management were \$75 billion while assets under administration were \$30 billion at June 30, 2002.

Net interest income in the Servicing and Fiduciary businesses segment was \$120 million for the second quarter of 2002 compared with \$137 million in 2001. The decrease in net interest income is primarily due to a decline in interest rates, which lowers the value of low-cost deposits generated by these businesses.

Net charge-offs in the Servicing and Fiduciary Businesses segment were zero in the second quarters of 2002 and 2001. Noninterest expense for the second quarter of 2002 was \$486 million compared with \$434 million in 2001. The rise in noninterest expense is attributable to acquisitions, as well as the Company's continued investment in technology.

Corporate Banking

The Corporate Banking segment's net interest income was \$102 million in the second quarter of 2002, compared with last year's \$127 million. The decrease reflects the decline in loan assets, as well as a decline in both the volume and the value of low cost short-term deposits.

The second quarter of 2002 provision for credit losses was \$26 million compared with \$30 million last year. The decrease principally reflects a reduction in corporate credit exposure in 2002. Net charge-offs in the Corporate Banking segment were \$30 million and \$27 million in the second quarter's of 2002 and 2001. Noninterest income was \$73 million in the current year compared with \$78 million last year. This reflects lower loan syndication and capital markets fees from slow market activity and the Company's efforts

to reduce corporate loan commitments. Total loan commitments declined to \$40.0 billion at June 30, 2002 from \$42.6 billion at March 31, 2002. Noninterest expenses were \$50 million in the second quarter of 2002 compared with \$56 million in 2001 reflecting lower compensation expenses.

Retail Banking

In the Retail Banking segment, net interest income in the second quarter of 2002 was \$122 million compared with \$124 million in 2001 reflecting a decline in the value of demand deposits in a lower interest rate environment. Noninterest income was \$28 million for the quarter flat with \$28 million last year. Noninterest expense in the second quarter of 2002 was \$78 million compared with \$74 million in the previous year's period because of higher compensation and technology expenses. Net charge-offs increased to \$5 million in the second quarter of 2002 from \$3 million in the second quarter of 2001 due to higher loss experience in the consumer loan portfolio.

Financial Markets

In the Financial Markets segment, net interest income for the quarter was \$91 million compared with \$62 million in 2001 reflecting both an increase in assets, primarily asset backed securities, as well as lower funding costs. Noninterest income was \$64 million in the second quarter of 2002 compared with \$70 million in the second quarter of 2001, as both foreign exchange and interest rate derivative trading results were adversely affected by narrower spreads and decreased volatility. Net charge-offs were zero in the second quarters of 2002 and 2001.

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 the first quarter of 2002, the Company changed certain assumptions related to the duration of sector assets and liabilities and the related interest rates. As a result, sector results for 2001 were 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 factors among others: historical charge-off experience and the volume, composition and growth of the loan 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. Assets and liabilities are match funded. Support and other indirect expenses are allocated to segments based on general internal guidelines.

Reconciling Items

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. Reconciling items for noninterest income primarily relate to the sale of certain securities. Reconciling items for noninterest expense include amortization of goodwill and intangibles, severance, and corporate overhead. 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 reconciling items for average assets consist of goodwill and other intangible assets.

| (In millions) | Second Quarter 2002 | Second Quarter 2001 | Year-to-Date June 30, | |
|---|---------------------------|---------------------------|--------------------------|----------|
| | ----- | ----- | 2002 | 2001 |
| Segment's revenue | \$1,291 | \$1,301 | \$2,526 | \$2,606 |
| Adjustments: | | | | |
| Earnings associated with assignment of capital | (25) | (34) | (52) | (68) |
| Securities gains | (2) | 7 | 1 | 12 |
| Taxable equivalent basis and other tax-related items | 13 | 15 | 28 | 27 |
| Other | 1 | 6 | 5 | 10 |
| | ----- | ----- | ----- | ----- |
| Subtotal-revenue adjustments | (13) | (6) | (18) | (19) |
| | ----- | ----- | ----- | ----- |
| Consolidated revenue | \$1,278 | \$1,295 | \$2,508 | \$2,587 |
| | ===== | ===== | ===== | ===== |
| Segment's income before tax | \$ 627 | \$ 685 | \$1,223 | \$1,368 |
| Adjustments: | | | | |
| Revenue adjustments (above) | (13) | (6) | (18) | (19) |
| Provision for credit losses different than GAAP | (6) | 3 | (11) | 4 |
| Severance costs | (16) | - | (16) | - |
| Goodwill and intangible amortization | (2) | (26) | (4) | (54) |
| Corporate overhead | (43) | (55) | (81) | (96) |
| | ----- | ----- | ----- | ----- |
| Consolidated income before tax | \$ 547 | \$ 601 | \$1,093 | \$1,203 |
| | ===== | ===== | ===== | ===== |
| Segments' total average assets | \$77,384 | \$74,813 | \$77,399 | \$74,857 |
| Adjustments: | | | | |
| Goodwill and Intangibles | 2,303 | 1,898 | 2,249 | 1,839 |
| | ----- | ----- | ----- | ----- |
| Consolidated average assets | \$79,687 | \$76,711 | \$79,648 | \$76,696 |
| | ===== | ===== | ===== | ===== |

FORWARD LOOKING STATEMENTS

The information presented with respect to, among other things, earnings outlook, projected business strategy, the outcome of legal and investigatory proceedings, the Company's plans, objectives and strategies reallocating assets and moving into fee-based businesses, future loan losses and planned capital expenditures, 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", "expect", "intend", "believe", "plan", "goal", "should", "may", "strategy", and words of like import are intended to identify forward looking statements in addition to statements specifically identified as forward looking statements.

Forward looking statements, including the Company's future results of operations and discussions of future plans contained in Management's Discussion and Analysis and elsewhere in this Form 10-Q, 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, projections or future plans, could be affected by a number of factors that the Company is necessarily unable to predict with accuracy, including the economic and other effects of the WTC disaster and the subsequent U.S. military action, lower than expected performance or higher than expected costs in connection with acquisitions and integration of acquired businesses, changes in relationships with customers, variations in management projections or market forecasts and the actions that management could take in response to these changes, management's ability to achieve efficiency goals, changes in customer credit quality, future changes in interest rates, general credit quality, the levels of economic, capital market, cross-border investing and merger and acquisition activity, consumer behavior, government monetary policy, domestic and foreign legislation, regulation and investigation, competition, credit, market and operating risk, and loan demand, as well as the pace of recovery of the domestic economy, market demand for the Company's products and services and future global economic conditions. 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.

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. For personal and corporate trust services and investment counseling services, insurance companies, investment counseling firms, and other business firms and individuals offer active competition. A wide variety of domestic and foreign companies compete for processing services.

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

| | For the three months ended June 30, 2002 | | | For the three months ended June 30, 2001 | | |
|---|---|----------|-----------------|---|----------|-----------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| ----- | | | | | | |
| Interest-Bearing | | | | | | |
| Deposits in Banks (primarily foreign) | \$ 5,737 | \$ 44 | 3.03% | \$ 5,563 | \$ 62 | 4.46% |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 2,834 | 12 | 1.69 | 3,602 | 38 | 4.28 |
| Loans | | | | | | |
| Domestic Offices | 19,068 | 245 | 5.16 | 18,941 | 321 | 6.80 |
| Foreign Offices | 15,566 | 132 | 3.40 | 18,228 | 274 | 6.04 |
| | ----- | ----- | | ----- | ----- | |
| Total Loans | 34,634 | 377 | 4.37 | 37,169 | 595 | 6.43 |
| | ----- | ----- | | ----- | ----- | |
| Securities | | | | | | |
| U.S. Government Obligations | 669 | 9 | 5.40 | 1,019 | 14 | 5.68 |
| U.S. Government Agency Obligations | 3,253 | 45 | 5.54 | 2,880 | 47 | 6.43 |
| Obligations of States and Political Subdivisions | 580 | 9 | 6.54 | 638 | 13 | 7.88 |
| Other Securities | 10,112 | 124 | 4.89 | 4,086 | 61 | 6.02 |
| Trading Securities | 8,124 | 68 | 3.36 | 9,003 | 111 | 4.91 |
| | ----- | ----- | | ----- | ----- | |
| Total Securities | 22,738 | 255 | 4.49 | 17,626 | 246 | 5.57 |
| | ----- | ----- | | ----- | ----- | |
| Total Interest-Earning Assets | 65,943 | 688 | 4.18% | 63,960 | 941 | 5.90% |
| | ----- | ----- | | ----- | ----- | |
| Allowance for Credit Losses | (616) | | | (612) | | |
| Cash and Due from Banks | 2,726 | | | 2,791 | | |
| Other Assets | 11,634 | | | 10,572 | | |
| | ----- | | | ----- | | |
| TOTAL ASSETS | \$79,687 | | | \$76,711 | | |
| | ===== | | | ===== | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| ----- | | | | | | |
| Interest-Bearing Deposits | | | | | | |
| Money Market Rate Accounts | \$ 6,405 | \$ 21 | 1.33% | \$ 6,190 | \$ 53 | 3.41% |
| Savings | 8,171 | 22 | 1.10 | 7,650 | 41 | 2.14 |
| Certificates of Deposit | | | | | | |
| \$100,000 & Over | 1,252 | 8 | 2.50 | 377 | 5 | 5.37 |
| Other Time Deposits | 1,567 | 9 | 2.27 | 1,975 | 22 | 4.48 |
| Foreign Offices | 24,459 | 98 | 1.60 | 25,935 | 252 | 3.91 |
| | ----- | ----- | | ----- | ----- | |
| Total Interest-Bearing Deposits | 41,854 | 158 | 1.51 | 42,127 | 373 | 3.55 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 2,299 | 8 | 1.47 | 2,279 | 23 | 4.05 |
| Other Borrowed Funds | 4,394 | 30 | 2.73 | 2,031 | 28 | 5.43 |
| Long-Term Debt | 5,450 | 56 | 4.06 | 4,502 | 71 | 6.34 |
| | ----- | ----- | | ----- | ----- | |
| Total Interest-Bearing Liabilities | 53,997 | 252 | 1.87% | 50,939 | 495 | 3.90% |
| | ----- | ----- | | ----- | ----- | |
| Noninterest-Bearing Deposits | 10,257 | | | 10,696 | | |
| Other Liabilities | 9,017 | | | 9,011 | | |
| Common Shareholders' Equity | 6,416 | | | 6,065 | | |
| | ----- | | | ----- | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$79,687 | | | \$76,711 | | |
| | ===== | | | ===== | | |
| Net Interest Earnings and Interest Rate Spread | | \$ 436 | 2.31% | | \$ 446 | 2.00% |
| | | ===== | ===== | | ===== | ===== |
| Net Yield on Interest-Earning Assets | | | 2.65% | | | 2.79% |
| | | | ===== | | | ===== |

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

| | For the six months ended June 30, 2002 | | | For the six months ended June 30, 2001 | | |
|---|---|----------|-----------------|---|----------|-----------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| ----- | | | | | | |
| Interest-Bearing | | | | | | |
| Deposits in Banks (primarily foreign) | \$ 5,481 | \$ 79 | 2.88% | \$ 5,697 | \$ 132 | 4.66% |
| Federal Funds Sold and Securities Purchased Under Resale Agreements | 3,069 | 26 | 1.72 | 3,666 | 89 | 4.92 |
| Loans | | | | | | |
| Domestic Offices | 19,211 | 490 | 5.15 | 19,028 | 661 | 6.99 |
| Foreign Offices | 15,869 | 270 | 3.43 | 18,667 | 611 | 6.61 |
| | ----- | ----- | | ----- | ----- | |
| Total Loans | 35,080 | 760 | 4.37 | 37,695 | 1,272 | 6.80 |
| | ----- | ----- | | ----- | ----- | |
| Securities | | | | | | |
| U.S. Government Obligations | 736 | 20 | 5.37 | 1,146 | 32 | 5.71 |
| U.S. Government Agency Obligations | 3,075 | 87 | 5.66 | 2,340 | 76 | 6.55 |
| Obligations of States and Political Subdivisions | 574 | 19 | 6.57 | 660 | 26 | 7.90 |
| Other Securities | 9,322 | 231 | 4.96 | 3,682 | 108 | 5.93 |
| Trading Securities | 8,435 | 141 | 3.38 | 9,596 | 253 | 5.27 |
| | ----- | ----- | | ----- | ----- | |
| Total Securities | 22,142 | 498 | 4.51 | 17,424 | 495 | 5.72 |
| | ----- | ----- | | ----- | ----- | |
| Total Interest-Earning Assets | 65,772 | 1,363 | 4.18% | 64,482 | 1,988 | 6.21% |
| | ----- | ----- | | ----- | ----- | |
| Allowance for Credit Losses | (616) | | | (613) | | |
| Cash and Due from Banks | 2,683 | | | 2,712 | | |
| Other Assets | 11,809 | | | 10,115 | | |
| | ----- | | | ----- | | |
| TOTAL ASSETS | \$79,648 | | | \$76,696 | | |
| | ===== | | | ===== | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| ----- | | | | | | |
| Interest-Bearing Deposits | | | | | | |
| Money Market Rate Accounts | \$ 6,661 | \$ 44 | 1.34% | \$ 6,197 | \$ 123 | 4.01% |
| Savings | 8,114 | 48 | 1.18 | 7,572 | 90 | 2.39 |
| Certificates of Deposit \$100,000 & Over | 877 | 12 | 2.74 | 392 | 11 | 5.79 |
| Other Time Deposits | 1,585 | 19 | 2.38 | 1,940 | 45 | 4.72 |
| Foreign Offices | 24,816 | 195 | 1.59 | 26,372 | 566 | 4.33 |
| | ----- | ----- | | ----- | ----- | |
| Total Interest-Bearing Deposits | 42,053 | 318 | 1.53 | 42,473 | 835 | 3.97 |
| Federal Funds Purchased and Securities Sold Under Repurchase Agreements | 2,203 | 16 | 1.47 | 2,375 | 55 | 4.66 |
| Other Borrowed Funds | 4,566 | 59 | 2.58 | 2,030 | 59 | 5.84 |
| Long-Term Debt | 5,239 | 109 | 4.15 | 4,510 | 152 | 6.75 |
| | ----- | ----- | | ----- | ----- | |
| Total Interest-Bearing Liabilities | 54,061 | 502 | 1.87% | 51,388 | 1,101 | 4.32% |
| | ----- | ----- | | ----- | ----- | |
| Noninterest-Bearing Deposits | 10,192 | | | 10,852 | | |
| Other Liabilities | 9,097 | | | 8,415 | | |
| Common Shareholders' Equity | 6,298 | | | 6,041 | | |
| | ----- | | | ----- | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$79,648 | | | \$76,696 | | |
| | ===== | | | ===== | | |
| Net Interest Earnings and Interest Rate Spread | | \$ 861 | 2.31% | | \$ 887 | 1.89% |
| | | ===== | ===== | | ===== | ===== |
| Net Yield on Interest-Earning Assets | | | 2.64% | | | 2.77% |
| | | | ===== | | | ===== |

PART 2. OTHER INFORMATION

Item 1. Legal Proceedings

The Company continues to cooperate with investigations by federal and state law enforcement and bank regulatory authorities. The investigations focus on funds transfer activities in certain accounts at the Bank, principally involving wire transfers from Russian and other sources in Eastern Europe, as well as certain other matters involving the Bank and its affiliates. The funds transfer investigations center around accounts controlled by Peter Berlin, his wife, Lucy Edwards (until discharged in September 1999, an officer of the Bank), and companies and persons associated with them. Berlin and Edwards pled guilty to various federal criminal charges. The Company cannot predict when or on what basis the investigations will conclude or their effect, if any, on the Company.

Four purported shareholder derivative actions have been filed in connection with these Russian related matters - - two in the United States District Court for the Southern District of New York and two in the New York Supreme Court, New York County - - against certain directors and officers of the Company and the Bank alleging that the defendants have breached their fiduciary duties of due care and loyalty by aggressively pursuing business with Russian banks and entities without implementing sufficient safeguards and failing to supervise properly those responsible for that business. The actions seek, on behalf of the Company and the Bank, monetary damages from the defendants, corrective action and attorneys' fees. On September 1, 2000, plaintiffs in the two federal actions filed an amended, consolidated complaint that names all of the directors and certain officers of the Bank and the Company as defendants, repeats the allegations of the original complaints and adds allegations that certain officers of the Bank and the Company participated in a scheme to transfer cash improperly from Russia to various off-shore accounts and to avoid Russian customs, currency and tax laws. Management believes that the allegations of both the original complaints and the amended complaint are without merit. On September 12, 2000, the boards of directors of the Bank and the Company authorized a Special Litigation Committee ("SLC") to consider the response of the Bank and the Company to the state and federal court shareholder derivative actions. The SLC issued an Interim Report dated May 21, 2001 which concluded that there was "no credible evidence" to support the allegations of personal misconduct against Mr. Renyi and "credible evidence" that contradicts "critical allegations" in the amended complaint in the federal action.

On August 31, 2001, defendants moved to dismiss the two actions filed in the United States District Court for the Southern District of New York. On November 27, 2001, the federal district court granted defendants' motion and dismissed the two actions. On December 19, 2001, plaintiffs filed a Notice of Appeal to the United States Court of Appeals for the Second Circuit. Argument on that appeal is expected in the fall of 2002.

On February 1, 2002, counsel for plaintiffs in the two federal court actions filed a shareholder derivative action in New York Supreme Court, New York County that made allegations substantially similar to the two federal court actions that were dismissed. The Company and the Bank requested that the New York State Supreme Court issue an order consolidating the new state court shareholder derivative action with the two shareholder derivative actions previously filed. Plaintiffs in the new shareholder derivative action opposed consolidation. On July 15, 2002, the court ordered the consolidation of the new action.

The two previously filed state court derivative actions, which do not include any allegations of personal misconduct, are still pending. Lead plaintiffs' counsel for all pending shareholder derivative actions and counsel for defendants are currently undertaking court-appointed mediation.

Additionally, on October 7, 1999, six alleged depositors of Joint Stock Bank Inkombank ("Inkombank"), a Russian bank, filed a purported class action in the United States District Court for the Southern District of New York on behalf of all depositors of Inkombank who lost their deposits when that bank collapsed in 1998. The complaint, as subsequently amended twice, alleges that the Company and the Bank and their senior officers knew about, and aided and abetted the looting of Inkombank by its principals and participated in a scheme to transfer cash improperly from Russia to various off-shore accounts and to avoid Russian customs, currency and tax laws. The amended complaint asserts causes of action for conversion and aiding and abetting conversion under New York law. In addition, the amended complaint states a claim under the Racketeer Influenced and Corrupt Organizations Act ("RICO"). On March 21, 2001, the court dismissed the second amended complaint without leave to replead. On January 14, 2002, the United States Court of Appeals for the Second Circuit vacated the dismissal of the Second Amended Complaint because it disagreed with one ground of the district court's dismissal, and remanded the case to the lower court to consider alternate bases for dismissal. On March 19, 2002, the Company and the Bank filed a motion to dismiss the second amended complaint; that motion will be heard later this year. The Company and the Bank believe that the allegations made in this action are without merit, and intend to defend the action vigorously.

On October 24, 2000, three alleged shareholders of Inkombank filed an action in the Supreme Court, New York County against the Company, the Bank and Inkombank. The complaint alleges that the defendants fraudulently induced the plaintiffs to refrain from redeeming their alleged \$40 million investment in Inkombank. The complaint asserts a single cause of action for fraud, seeking \$40 million plus 12% interest from January 1994, punitive damages, costs, interest and attorney fees. The Court denied the Company and the Bank's motion to dismiss the complaint on January 15, 2002. The Company and the Bank's motion to reargue is pending. Discovery is ongoing. The Company and the Bank believe that the allegations of the complaint are without merit and intend to defend the action vigorously.

The Company does not expect that any of the foregoing civil actions will have a material impact on the Company's consolidated financial statements.

In the ordinary course of business, there are various legal claims pending against the Company and its subsidiaries. In the opinion of management, liabilities arising from such claims, if any, would not have a material effect on the Company's consolidated financial statements.

Item 2. Sales of Unregistered Common Stock

During the second quarter of 2002, 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 June 14, 2002, 14,400 shares of common stock were issued to serving non-employee directors as part of their annual retainer and 2,400 shares of common stock were issued to a retired director who had deferred receipt of such common stock pursuant to the Deferred Compensation Plan for Non-Employee Directors of The Bank of New York Company, Inc.

(b) On June 19, 2002, 34,590 shares of the Company's common stock were issued to the former shareholders of a corporation previously acquired by the Company.

Item 4. Submission of Matters to Vote of Security Holders

The Company held its annual meeting on May 14, 2002 at The Bank of New York at 385 Rifle Camp Road, West Paterson, New Jersey. The shareholders:

- (1) elected fourteen persons to serve as directors of the Company;
- (2) ratified the appointment of Ernst & Young LLP as the Company's independent public accountants for 2002; and
- (3) defeated a shareholder proposal with respect to former government officials.

The number of votes cast for, against or withheld, and the number of abstentions with respect to each such matter is set forth below, as are the number of broker non-votes, where applicable. Pursuant to New York law, abstentions and broker non-votes are not counted toward the election of directors.

| | FOR | AGAINST/WITHHELD | ABSTAINED | BROKER NON-VOTES |
|--|-------------|------------------|------------|------------------|
| (1) Election of Directors: | | | | |
| J. Carter Bacot | 611,171,253 | 24,911,239 | | |
| Frank J. Biondi, Jr. | 618,531,372 | 17,551,120 | | |
| William R. Chaney | 617,820,894 | 18,261,598 | | |
| Nicholas M. Donofrio | 615,442,967 | 20,639,525 | | |
| Alan R. Griffith | 618,487,137 | 17,595,355 | | |
| Gerald L. Hassell | 618,555,691 | 17,526,801 | | |
| Richard J. Kogan | 618,528,219 | 17,554,273 | | |
| John A. Luke, Jr. | 615,312,189 | 20,770,303 | | |
| John C. Malone | 617,439,569 | 18,642,923 | | |
| Paul Myners | 618,611,212 | 17,471,280 | | |
| Catherine A. Rein | 615,489,446 | 20,593,046 | | |
| Thomas A. Renyi | 618,583,608 | 17,498,884 | | |
| William C. Richardson | 615,520,406 | 20,562,086 | | |
| Brian L. Roberts | 615,469,977 | 20,612,515 | | |
| (2) Ratification of Auditors | 614,445,128 | 18,177,756 | 3,459,608 | |
| (3) Approval of Shareholder Proposal With Respect to Former Government Officials | 23,946,554 | 489,159,861 | 16,389,046 | 106,587,031 |

Item 6. Exhibits and Reports on Form 8-K

(a) The exhibits filed as part of this report are as follows:

Exhibit 12 - Statement Re: Ratio of Earnings to Fixed Charges for the Three Months and Six Months Ended June 30, 2002 and 2001.

(b) The Company filed the following reports on Form 8-K since March 31, 2002:

On April 17, 2002, the Company filed a Form 8-K Current Report (Items 5 and 7), which report included unaudited interim financial information and accompanying discussion for the first quarter of 2002 contained in the Company's press release dated April 17, 2002.

On May 23, 2002, the Company filed a Form 8-K Current Report (Item 5 and 7), which report included four exhibits in connection with the Registration Statement on Form S-3 (File Nos. 333-62516, 333-62516-01, 333-62516-02, 333-62516-03, 333-62516-04) covering the Company's 5.20% Senior Notes due 2007, issuable under an Indenture, dated as of July 18, 1991 between the Company and Deutsche Bank Trust Company Americas. The exhibits consist of the Pricing Agreement dated May 14, 2002; the Form of Note; an Officers' Certificate pursuant to Section 301 of the Indenture; and the opinion of counsel as to the legality of the Notes.

On June 26, 2002, the Company filed a Form 8-K Current Report (Item 5 and 7), which report included seven exhibits in connection with the Registration Statement on Form S-3 (File Nos. 333-89586, 333-89586-01, 333-89586-02, 333-89586-03, 333-89586-04) covering the Company's Senior Subordinated Medium-Term Notes, Series F and Senior Medium-Term Notes, Series E, issuable under an Indenture, dated as of October 1, 1993 between the Company and J.P. Morgan Trust Company and an Indenture, dated July 18, 1991 between the Company and Deutsche Bank Trust Company Americas. The exhibits consist of the form of Distribution Agreement dated June 26, 2002; the Forms of Notes; Officers' Certificates pursuant to Section 301 of the Indentures; and the opinion of counsel as to the legality of the Notes.

On July 17, 2002, the Company filed a Form 8-K Current Report (Items 5 and 7), which report included unaudited interim financial information and accompanying discussion for the second quarter of 2002 contained in the Company's press release dated July 17, 2002.

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: August 14, 2002

By: /s/ Thomas J. Mastro

Name: Thomas J. Mastro
Title: Comptroller

EXHIBIT INDEX

| Exhibit ----- | Description ----- |
|------------------|---|
| 12 | Ratio of Earnings to Fixed Charges for the Three Months and Six Months Ended June 30, 2002 and 2001. |

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THE BANK OF NEW YORK COMPANY, INC.
 Ratios of Earnings to Fixed Charges
 (Dollars in millions)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------|------------------------------|---------|
| | 2002 | 2001 | 2002 | 2001 |
| | ----- | ----- | ----- | ----- |
| EARNINGS | | | | |
| ----- | | | | |
| Income Before Income Taxes | \$ 547 | \$ 601 | \$1,093 | \$1,203 |
| Fixed Charges, Excluding Interest on Deposits | 103 | 130 | 202 | 284 |
| | ----- | ----- | ----- | ----- |
| Income Before Income Taxes and Fixed Charges Excluding Interest on Deposits | 650 | 731 | 1,295 | 1,487 |
| Interest on Deposits | 158 | 373 | 318 | 835 |
| | ----- | ----- | ----- | ----- |
| Income Before Income Taxes and Fixed Charges, Including Interest on Deposits | \$ 808 | \$1,104 | \$1,613 | \$2,322 |
| | ===== | ===== | ===== | ===== |
| FIXED CHARGES | | | | |
| ----- | | | | |
| Interest Expense, Excluding Interest on Deposits | \$ 94 | \$ 122 | \$ 184 | \$ 266 |
| One-Third Net Rental Expense* | 9 | 8 | 18 | 18 |
| | ----- | ----- | ----- | ----- |
| Total Fixed Charges, Excluding Interest on Deposits | 103 | 130 | 202 | 284 |
| Interest on Deposits | 158 | 373 | 318 | 835 |
| | ----- | ----- | ----- | ----- |
| Total Fixed Charges, Including Interest on Deposits | \$ 261 | \$ 503 | \$ 520 | \$1,119 |
| | ===== | ===== | ===== | ===== |
| EARNINGS TO FIXED CHARGES RATIOS | | | | |
| ----- | | | | |
| Excluding Interest on Deposits | 6.31x | 5.62x | 6.41x | 5.24x |
| Including Interest on Deposits | 3.10 | 2.19 | 3.10x | 2.08 |

<FN>

*The proportion deemed representative of the interest factor.

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