October 31, 2014
Volume XL, Issue X

The Bank of New York Mellon Corporation

NYSE: BK

Dow Jones Indus:	**17,390.52**
S&P 500:	**2,018.05**
Russell 2000:	**1,173.51**
Index Component:	**S&P 500**

Initially Probed: Volume XXXI, Issue V @ $29.00
Last Probed: Volume XXXIX, Issue XI & XII @ $32.84
Trigger: No
Type of Situation: Business Value

Price:	**$**	**38.72**
Shares Outstanding (MM):		**1,149**
Fully Diluted (MM) (% Increase):		**1,153 (0.3%)**
Average Daily Volume (MM):		**5.5**
Market Cap (MM):	**$**	**44,632**
Enterprise Value (MM):	**$**	**N/A**
Percentage Closely Held:		**NM**
52-Week High/Low:	**$**	**40.26/30.91**
5-Year High/Low:	**$**	**40.26/17.70**
Trailing Twelve Months		
Price/Earnings:		**16.0x**
Price/Stated Book Value:		**1.2x**
Long-Term Debt (MM):	**$**	**21,583**
Upside to Estimate of Intrinsic Value:		**36%**
Dividend:	**$**	**0.68**
Payout		**28%**
Yield		**1.76%**
Net Revenue Per Share:		
2013:	**$**	**13.00**
2012:	**$**	**12.40**
2011:	**$**	**12.06**
2010:	**$**	**11.40**
2009:	**$**	**6.49**
Earnings Per Share:		
2013:	**$**	**1.73**
2012:	**$**	**2.03**
2011:	**$**	**2.03**
2010:	**$**	**2.11**
2009:	**$**	**(0.93)**

Fiscal Year Ends:	**December 31**
Company Address:	**One Wall Street New York, NY 10286**
Telephone:	**(212) 495-1784**
Chairman/CEO:	**Gerald L. Hassell**

Clients of Boyar Asset Management, Inc. own 83,459 shares of BK common stock at a cost of $26.83 per share.

Analysts employed by Boyar's Intrinsic Value Research LLC own shares of BK common stock.

Background

The Bank of New York Mellon Corporation ("BNY Mellon," "BK," "the Bank," or the "Company") is a critical financial services provider, overseeing greater than $28 trillion in assets under custody or administration. BK offers a wide range of investment services (custody, clearing, foreign exchange trading, risk management, performance analysis, corporate trust, treasury services, etc.) and leverages its balance sheet through securities lending and reinvestment of its huge client deposit base. BK is also the 6th largest asset manager globally utilizing a multi-boutique model that serves primarily institutional clients across a range of strategies.

BNY Mellon shares have rallied 75% since *Asset Analysis Focus* last provided a feature-length profile of the Company in February 2012. Despite the rally, BK shares still trade at a reasonable 16x 2014E EPS and 1.2x book value. Importantly, we believe BK is still drastically under-earning both currently, as compared to its closest peers, and versus potential in a more "normalized" higher interest rate environment. For example, BK's operating margins are down ~800 bps from pre-crisis levels and are now ~300 bps below State Street's despite possessing comparable custody business scale and higher revenue as a percentage of assets under custody. The Company also continues to suffer from declining net interest margins, heavy fee waivers on its money market business, and declining high margin revenue streams (FX trading, securities lending, corporate trust, etc.) due to the sluggish global capital markets. Importantly, we believe there are early signs that improvement is on the horizon. The Federal Reserve looks increasingly likely to begin to raise short term interest rates in 2015. Facing growing investor unrest and the arrival of an activist investor (Trian Partners), in recent months BK management has taken more aggressive actions including new cost savings initiatives, an upper management shakeup, adding two new board members, and the exploration of multiple divestitures (detailed discussion beginning on page 32). While management recently provided more optimistic targets in its 3-year outlook, we believe BK can achieve close to $3.30/share in earnings by 2017 assuming more modest 5% annualized revenue growth and 300 bps in operating leverage. Assuming no P/E multiple expansion, we estimate BK's intrinsic value will approach $53 per share at 16x 2017E EPS, representing ~42% total return upside over the coming 3 years.

Looking longer term, we believe the Company remains a dominant player in a niche industry with attractive returns and a lower risk profile versus traditional banking. We also believe BNY Mellon is positioned to benefit from favorable long-term tailwinds including an increasingly globalized financial system (translating to depositary receipt, foreign exchange trading, etc. demand), regulatory burdens (collateralization and securities lending demand), and greater focus on cost controls and balance sheet management (middle and back office outsourcing). In the interim, BK remains well capitalized and is returning close to 100% of earnings to shareholders via dividends and share repurchases. Finally, we would not dismiss the possibility that BK accedes to investor pressure and explores a separation of its Investment Management business (detailed discussion beginning on page 35). Although the business has posted steady inflows in recent years, its actively managed funds have drastically underperformed and a separation could spur both improved performance/distribution as well as a re-rating of the stock.

Business Description & Market Position

Founded as New York's first bank in 1784 under the leadership of Alexander Hamilton, today The Bank of New York Mellon is one of the world's largest securities servicers, with $28.3 trillion in assets under custody and/or administration (AUC/A). BNY Mellon is also the 6th largest asset manager globally. BK reports in two segments: Investment Services (IS; 68% of 2013 consolidated revenue), which houses its custodial and other asset servicing businesses, and Investment Management (IM; 26% of revenue), which offers a range of investment strategies and fund structures across a collection of managers. The Company also reports a small Other division (6% of 2013 revenue) that includes the Company's investment securities portfolio, credit related activities, and financing-related fees. BNY Mellon describes itself as "a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments." BK's client list includes 80% of Fortune 500 companies, 66% of the top 1,000 pension funds, and 50% of the top 200 life/health insurance companies.

Investment Services

BK's Investment Services (IS) division provides a wide range of securities services to a diverse customer base including many of the largest financial institutions, multinational corporations, corporate and governmental pension funds, endowments, central banks, sovereign wealth funds, mutual funds, hedge funds, and other asset managers and financial advisors. Over half of BK's investment services fees are generated from asset servicing, which includes institutional trust and custody fees, broker-dealer services, global collateral services, and securities lending. Ancillary services provided by BK include alternative investment services, investment manager back office outsourcing, performance and risk analytics, collateral management, payment processing, etc. BK's issuer services business is a leading global provider of corporate trust services and depositary receipts services. BK's clearing services business includes Pershing, the #1 clearing firm in the U.S., acquired for $2.0 billion in 2003. The clearing business provides traditional broker-dealer services, prime brokerage services, and RIA services as well as more customized solutions, with over 1,600 clients globally. As of 3Q 2014, BK supported $443 billion in long-term mutual fund assets on its U.S. clearing platform. Both Pershing and the asset servicing business were further expanded in 2010 through the purchase of PNC's Global Investment Servicing (GIS) business for $2.3 billion.

Investment Services Fee Revenue, 1Q13-3Q14

	2013				2014		
($ in millions)	**1st Qtr**	**2nd Qtr**	**3rd Qtr**	**4th Qtr**	**1st Qtr**	**2nd Qtr**	**3rd Qtr**
Investment services fees:							
Asset servicing	$ 930	$ 938	$ 929	$ 953	$ 971	$ 976	$ 988
Securities lending	39	50	35	31	38	46	37
Issuer services	237	294	322	237	229	231	315
Clearing services	304	321	315	324	325	326	337
Treasury services	141	139	137	137	136	141	142
Total investment services fees	$ 1,651	$ 1,742	$ 1,738	$ 1,682	$ 1,699	$ 1,720	$ 1,819

The Investment Services division also generates net interest revenue from the reinvestment of client deposits. Investment Services net interest revenue totaled $2.5 billion or 25% of segment revenue in 2013. IS also includes ancillary revenue from foreign exchange trading services as well as a small amount of investment management fees and distribution and servicing revenue.

Investment Management

Bank of New York Mellon's Investment Management division manages $1.65 trillion in assets across a range of managers and strategies. The division primarily caters to large institutions and there is significant overlap with IS clients; 81% of AUM are institutional. As such, its offerings are less concentrated in traditional active fixed income (13% of AUM) and equity (16%) funds with greater focus on liability-driven investment (LDI) strategies (28%), index products (21%), and cash management (18%). As illustrated below, BNY Mellon's fund managers include at least 15 primary investment boutiques such as BNY Mellon Cash Investment Strategies, Insight Investment, Mellon Capital, Standish, and numerous smaller managers. The Dreyfus Corporation is the retail and institutional mutual fund brand and distribution arm for a large percentage of assets managed by many of the Company's affiliated fund divisions.

BNY Mellon Principal Major Fund Managers and AUM

Manager	AUM (6/30/14)	Category
Alcentra	$21.8B	Sub-investment grade debt
BNY Mellon ARX	$6.9B	Brazilian equity, fixed income
BNY Mellon Cash Investment Strategies	$221.6B	Money market, short duration
The Boston Company	$50.6B	Equity, alternatives
CenterSquare Investment Management	$7.5B	Real estate
Dreyfus	NA	Mutual funds (distribution arm w/ sub-managers inc. CIS, Boston, Mellon, Standish)
EACM Advisors	$5.5B	Fund of hedge funds
Hamon Investment Group	$808 MM	Asian equity
Insight Investment	$494.7B	LDI, fixed income, specialist equity, currency
Mellon Capital	$379.7B	Global multi-asset; indexing, alternatives, LDI
Meriten Investment Management	$26.9B	European fixed income, equity
Newton	$87.0B	Global equity, fixed income, specialist
Siguler Guff	$10.5B	PE, real estate
Standish	$165.6B	Fixed Income, LDI
Walter Scott	$69.9B	Equity

BNY Mellon #6 Global Asset Manager

Rank	Manager	AUM ($B)
1	BlackRock	$4,324
2	Vanguard Group	$2,753
3	State Street Global Advisors	$2,345
4	Fidelity Investments	$2,160
5	JP Morgan Asset Management	$1,598
6	**BNY Mellon**	**$1,583**
7	PIMCO	$1,535
8	Capital Group	$1,339
9	Deutsche Asset & Wealth Mgmt	$1,289
10	Prudential Financial	$1,107
11	Amundi	$1,072
12	Goldman Sachs	$1,042
13	Northern Trust Asset Mgmt	$884
14	Franklin Templeton	$879
15	Wellington	$834

Source: Pensions & Investments, year-end 2013, via BNY Mellon investor presentation.

Attractive Business Model with Leading Scale

BK's business model and market position offer numerous attractive characteristics. For one, BK generates a relatively low-risk fee-based revenue stream. Fee-based revenue accounts for ~79% of BNY Mellon's total revenue. The vast majority of BK's services fulfills clients' regulatory/operational necessities and/or represents a small fraction of client revenue (single- or double-digit basis points). In a relatively commoditized business, cost advantages and breadth of service offerings drive competitive advantages. As illustrated below, BK's scale among custodial banks is matched only by State Street based on AUC/A. Overall the top 4 players have a roughly 2/3 combined market share globally, and invest heavily in technology/back-end infrastructure, which helps to limit competitive pressures. Cross-border and global service capabilities are also increasingly important. BK has a global reach, with a business presence in 35 countries and over 100 markets and upwards of 38% of Company-wide revenue generated outside the U.S. Furthermore, clients tend to be sticky as the custodial business is somewhat of a relationship business, contracts can be multi-year, and—depending on the services—clients' administrative costs to transition service providers can be very high.

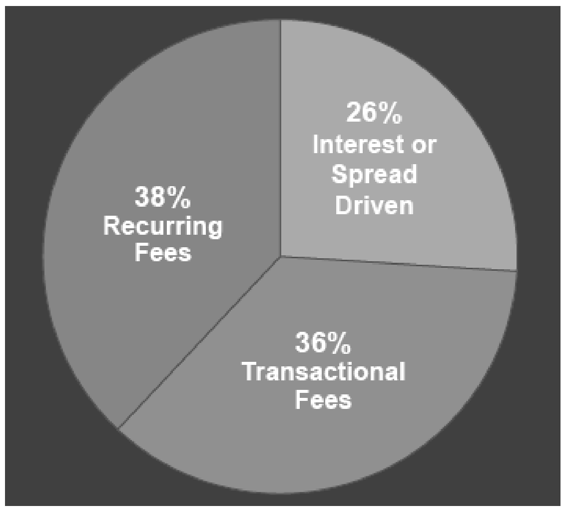
Largest Global Custodians by AUC/A (2Q/3Q 2014)

Custodian	Assets under Custody and/or Administration
State Street	$28.5 T
BNY Mellon	**$28.3 T**
JP Morgan	$21.2 T
Citigroup	$15.4 T
BNP Paribas	$9.5 T
HSBC	$6.6 T
Northern Trust	$5.9 T

Source: Company filings

The remaining portion of BK's recurring revenue largely consists of net interest revenue earned on reinvestment of client deposits. Deposits are primarily invested into liquid, high quality, short duration securities. Approximately 45% of BK's interest-earning assets were invested in cash and short-term interbank loans as of 3Q14. Fully 94% of the Company's $115 billion investment securities portfolio is held in securities rated between A- and AAA. In the Company's $59 billion loan portfolio (as of 2Q14), BK reported a miniscule 0.32% nonperforming asset ratio. The Company has extended relatively minimal unsecured credit and does not engage in retail lending, having exited its retail banking and credit card lending businesses prior to the financial crisis. (Although BK made some unwise investments in mortgage-backed securities prior to the financial crisis, these issues are now behind the Company.) Overall, BK's balance sheet structure sharply reduces the Company's exposure to credit risk or interest rate shocks while maintaining a low cost of funds and a liquid balance sheet. Although net interest margins are also thin (0.94% in 3Q14), BK reported an ultra-low average cost of interest-bearing liabilities and non-interest bearing deposits of just 0.12% during 3Q14.

Percentage of Revenue (2013)



Source: Company presentation

Financial Performance and Outlook

BNY Mellon's relatively stable business model allowed the Company to weather the financial crisis and recession better than most global bank peers. In more recent years, revenue and earnings growth have remained sluggish due to a combination of factors including broadly low capital markets volatility/volume and historically low short-term interest rates. Core investment services fee revenue increased at a 4% CAGR between 2011-2013, according to the Company's definition. However, we would note that this excludes costly money market fee waivers, issuer services revenue (which declined following the sale of the Shareowner Services business in 4Q 2011) and declining securities lending revenue and net interest revenue (NIR). Investment services fee growth has been a similarly lackluster 2% in 2014 to date, improving to 4.6% in the latest quarter. But overall Investment Services segment revenue increased less than 1% YTD 3Q14. The Investment Management business has experienced somewhat stronger growth, with IM segment investment management and performance revenue growing at a 5% CAGR between 2011-2013 and increasing another 5.1% YTD 3Q14. In part this reflects the outsized rally in capital markets values (particularly equities) over the period, but net fund flows have also been consistently positive. The Company posted 18 consecutive quarters of long-term inflows until a modest outflow in 2Q14 that reversed in 3Q14. Overall, BK's total revenue increased at only a 2% CAGR between 2011-2013 versus management's 3%-5% target.

BNY Mellon Historical Financial Summary

(dollar amounts in millions)	Consolidated Results 2011	2012	2013
Revenue:			
Investment services fees			
Asset servicing	$ 3,697	$ 3,780	$ 3,905
Issuer services	1,445	1,052	1,090
Clearing services	1,159	1,193	1,264
Treasury services	535	549	554
Total investment services fees	6,836	6,574	6,813
Investment management fees	3,015	3,119	3,345
Performance fees	94	136	130
Foreign exchange and other trading revenue	848	692	674
Distribution and servicing	187	192	180
Financing-related fees	170	172	172
Investment and other income	566	514	504
Total fee revenue	11,716	11,399	11,818
Net securities gains (losses)	48	162	141
Total fee and other revenue	11,764	11,561	11,959
Net interest revenue (expense)	2,983	2,973	3,009
Total revenue	14,747	14,534	14,968
Provision for credit losses	1	(80)	(35)
Noninterest expenses (ex. intangible amortization)	10,683	10,949	10,964
Income (loss) before taxes (ex. intangible amortization)	4,063	3,665	4,039
Amortization of intangible assets	428	384	342
Income (loss) before taxes and noncontrolling interest	$ 3,635	$ 3,281	$ 3,697

Operating margins have also been lackluster through the economic recovery. Core expenses grew faster than revenue at a 4% CAGR between 2011-2013, and adjusted operating margins decreased from 32% in 2010 and 28% in 2011 to 26% in 2013. Return on tangible equity (adjusted, non-GAAP basis) similarly declined from 24.5% in 2011 to 19.7% in 2013 and 18.4% in the latest quarter. In large part, BK's profit margin declines reflect increasing regulatory burdens and investments in compliance and the related increase in capital requirements, as well as a moderate continued drag from ongoing restructuring and litigation costs. Both the stagnant revenue growth and lower operating margins also reflect declines in several high margin revenue streams. Higher margin revenue streams including issuer services, net interest revenue, foreign exchange and securities lending revenue collectively declined at a 4.1% CAGR between 2011-2013, falling from 49% to 45% of IS segment revenue. On the positive side, there are early signs these trends could reverse going forward. While revenue growth continues to underwhelm, core expenses are flat YTD 3Q14 and TTM 3Q14 adjusted operating margins are up 78 bps. This includes a 245 bps improvement (non-GAAP basis) in operating margins Y/Y during 3Q14. We detail the recent challenges in high margin business lines as well as the long term upside from stabilization, higher interest rates and other sources in the following sections.

High Margin Revenue Contribution Declines 500 bps

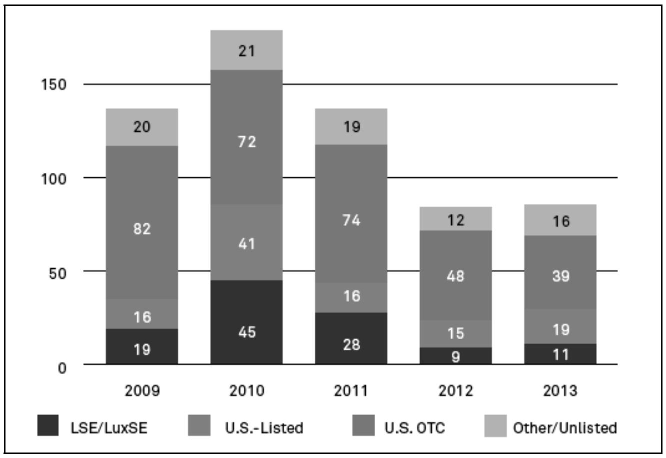
($millions) **High Margin Revenue as a Percent of Total Revenue**	**2011**	**2013**	**LTM 6/30/13**	**LTM 6/30/14**
Total Revenue - Adjusted	$14,798	$15,039	$14,791	$14,961
Foreign exchange & other trading	848	674	690	571
Net interest revenue (non-FTE)	2,984	3,009	2,950	2,980
Performance fees	93	130	115	130
Securities lending fees	183	155	179	150
Investment & other income	524	482	642	353
Issuer services fees	1,446	1,090	1,056	1,019
Securities gains/(losses)	48	141	152	101
Gain (loss) related to an equity investment (pre-tax)	–	(9)	(184)	175
Total High-Margin Revenue	$6,124	$5,671	$5,599	$5,479
% of Total Revenue - Adjusted	***41%***	***38%***	***38%***	***37%***

Source: Company presentation, September 2014

Issuer Services

BK's Issuer services business has been dragged down by the Corporate Trust and Depositary Receipts (DR) business units. Corporate Trust has experienced a steady decline in high margin structured debt service revenue as pre-recession era securitizations roll off. The Company has also experienced some fee waivers and other costs related to administration of real estate bubble-era trusts that have produced extended legal battles (BK is reimbursed for direct litigation costs and indemnified against lawsuits). Overall Corporate Trust pretax income declined from $897 million in 2009 to $542 million in 2013. The Company expects this headwind to clear over the next 12-18 months as substantially all high-margin pre-crisis securitizations will have reached maturity. Longer-term, a recovery in securitization volume presents attractive upside.

New DR Programs–Sponsored Only



Source: BNY Mellon 2013 Annual Depositary Receipts Report

The Depositary Receipts business has also suffered in recent years. BK's number of sponsored depositary programs declined 4% Y/Y to 1,302 in 3Q14 and is down from 1,389 at year-end 2011. In part, this reflects a cooling off following a period of unsustainable growth; according to Citigroup, DR trading volume increased at a 19% CAGR from 2006-2010 to 147 billion shares, and DR capital raised by non-U.S. companies grew 26% Y/Y to $20.7 billion by 2010.[1] Trading volume was down slightly to 143.2 billion shares in 2013. Issuance of new depositary programs has been impacted by European and emerging equity markets uncertainty in recent years, the recent decline in Chinese companies' DR issuance, as well as the ongoing impact of Sarbanes Oxley and other SEC/U.S. regulatory costs on the U.S. exchange listed ADR business. Nonetheless, BK is still the dominant depositary bank with ~60% market share in this business. Over the long-term, globalization of the financial markets and the rise of multinational corporations in the developing world should provide attractive tailwinds for this industry. There are already early signs of improvement in 2014, with new DR sponsor programs increasing 66% in 1H 2014 to 55 (vs. 85 for all of 2013) including 28 served by BK as depositary bank. We would also note that BK's issuer services revenue is still growing ex-corporate trust and DR fees, although these account for the bulk of revenue following the sale of the Shareowner Services business.

Foreign Exchange and Other Trading

BK has historically generated a relatively large amount of ancillary, high margin foreign exchange (FX) trading revenue from its securities servicing clients. Foreign exchange trading, and to a lesser extent other trading business, has been in a steady decline since peaking at $1.5 billion in 2008. FX and other trading revenue declined all the way to $674 million in 2013 and is down another 15% YTD to $462 million. The drop in FX trading revenue reflects an extended period of subdued volatility in the markets as well as pricing pressures. Pricing pressures have been exacerbated by the raft of lawsuits launched against BK (and other custodians) beginning in 2009 over the pricing of so-called standing instruction trades. While the ultimate litigation risk has proved far less severe than suggested by the initial headline publicity, it has caused BK to increase FX pricing transparency and reduced spreads. Other trading revenue has also declined markedly since 2012 due to

[1] http://www.citibank.com/sfs/about_us/articles/docs/2011/role_depositary_receipts.pdf

competitive pressures in derivatives trading, which led the Company to exit the business in 2014. On the positive side, foreign exchange revenue appears to have bottomed in 2012. Revenue actually rebounded in 2013 and while YTD 2014 revenue has declined again, the Company has been growing trading volume in 2014 and 3Q14 showed improvement (flat Y/Y and up 19% sequentially). If the recent forex market volatility continues, this could turn into an even stronger growth line for BK. Longer term, the Company remains well positioned to continue to grow volume by increasing its share of client trading revenue, which is still at a very low base.

Historical Foreign Exchange and Other Trading Revenue ($ millions)

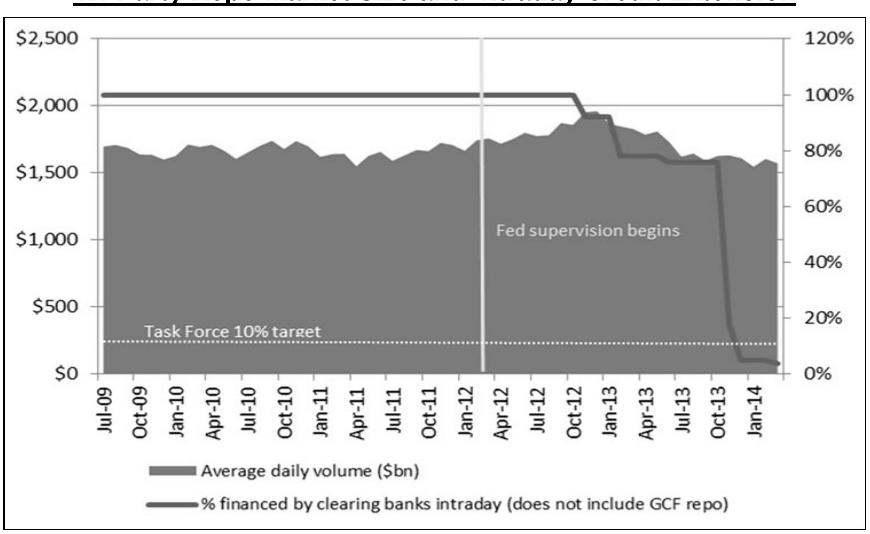
	Fiscal Year						YTD 3Q	
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2013**	**2014**
Forex	$1,197	$850	$787	$761	$520	$608	$482	$413
Other trading	$265	$186	$99	$87	$172	$66	$46	$6

Collateral Services and Securities Clearance

One area of BK's business that has shown some promise is collateral services. In 2012, BK formed a Global Collateral Services unit to address the growing collateral management needs produced by an increasingly complex regulatory capital environment. In addition to bank balance sheet transformation or management needs due to capital requirements, other areas of growing collateral service demand include ETFs and similar vehicles linked to underlying securities that should be collateralized, and OTC derivative transactions. As described by the Company, the Global Collateral Services business "brings together BNY Mellon's global capabilities in segregating, optimizing, financing and transforming collateral on behalf of clients, including its market leading broker-dealer collateral management, securities lending, collateral financing, liquidity and derivatives services teams."

Of particular note, BK is experiencing a recovery in the tri-party repurchase (repo) market following a sharp decline in volume and heavy regulatory scrutiny post-crisis. Alongside JP Morgan, BNY Mellon is one of two clearing agents in the domestic tri-party repo market. Among other functions, this historically involved providing intraday credit to primary dealers (large banks) to facilitate the short term lending market. In our February 2012 report on BK, *Asset Analysis Focus* extensively detailed the systemic risks to destabilizing the capital markets posed by this short-term lending market, as well as the Fed and other regulators' ongoing efforts to impose harsher restrictions on tri-party repo and money markets more broadly. To date, according to management BK has invested at least $80 million in ongoing costs to satisfy tri-party repo reform goals, particularly aimed at re-developing settlement procedures to reduce BK's role in providing intra-day credit. As illustrated below, JP Morgan and BK have nearly eliminated intraday credit extension, reducing it to well below the Fed's targeted benchmark of 10% of tri-party repo lending. Importantly, this has drastically reduced BK's (and financial markets') liabilities in the case of an extreme credit event.

Tri-Party Repo Market Size and Intraday Credit Extension



Source: Federal Reserve Bank of New York

The domestic tri-party repo market has declined from a peak of $2.8 billion to $1.6 billion, but BK now holds a dominant ~84% share. Further, the Company's global tri-party repo volume served has rebounded in recent years to reach $2.1 billion (up 6% Y/Y) during 3Q14. Overall, BK's securities lending revenue plummeted from a pre-crisis peak of $789 million in 2008 ($366 million in 2007) to just $113 million TTM 3Q14. While this partially reflects the huge drop off in volume post-crisis, the more recent declines reflect the impact of ultra-low short-term interest rates on revenue. The market value of securities on loan that are managed by BK actually increased 11% Y/Y to $282 billion in 3Q14. BK acts as agent for clients on another $65 billion in securities. Going forward, tri-party repo and securities lending could produce attractive upside in a higher rate/healthier short-term lending market.

Clearing Services Steadily Growing

The Pershing business also continues to chug along nicely, with clearing accounts, mutual fund positions and asset levels steadily rising. The Company reported 5.8 million average active clearing accounts on the U.S. platform during 3Q14, up 3.3% Y/Y. Strong appreciation in capital markets in recent years has pushed revenue higher, while average long-term mutual fund assets on the platform increased 17% to $443 billion. Overall clearing revenue reached $1.3 billion TTM 3Q14, up 6.4% Y/Y and 12.6% higher than 2011 levels.

Large Upside in Higher Rate Environment

Historically, BK's fee and other service revenue tracks relatively closely to noninterest expenses, while net interest revenue (NIR), other securities/investment gains, and trading revenue provide the Company with the bulk of the return on its services. The tremendous declines in global interest rates and flattening yield curve produced by the global recession and its aftermath have had a major impact on these businesses for BK. As a custodial bank with a very liquid, short duration balance sheet, BK has been particularly impacted by the near-zero (or even negative) short-term interest environment and contraction in the short term lending markets. Higher capital buffers and stricter regulatory risk-based capital rules have also impacted net interest revenue. As illustrated in the following chart, BK's net interest margin (on a "FTE" or fully taxable equivalent basis) has been in precipitous decline over the past 5 years, from 2.21% in 2008 all the way down to 1.13% in 2013.

BNY Mellon Historical Net Interest Revenue ($ millions)

	Fiscal Year								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**3Q13**	**3Q14**
Average interest bearing assets	110,034	152,201	160,955	172,793	222,226	250,450	272,841	271,150	311,603
Net interest margin	2.05%	2.21%	1.82%	1.70%	1.36%	1.21%	1.13%	1.16%	0.94%
Net interest revenue (FTE)	2,257	3,369	2,933	2,944	3,011	3,028	3,072	787	736

As we have previously stressed, the sharp decline in BK's net interest margin (NIM) has been largely offset by a steady influx of short-term deposits coming onto its balance sheet as the Fed balance sheet expanded, financial institutions have retrenched and commercial paper/short-term lending markets have shrunk. A significant portion of these deposits are non-interest bearing ($82 billion in 3Q14) and funneled to the Fed to earn an essentially risk-less 25 bps. BK's average interest bearing assets have more than doubled from $152 billion in 2008 to $312 billion in 3Q14. As a result, total NIR has actually held up in recent years despite the drop in NIM, even growing slightly between 2009 and 2013.

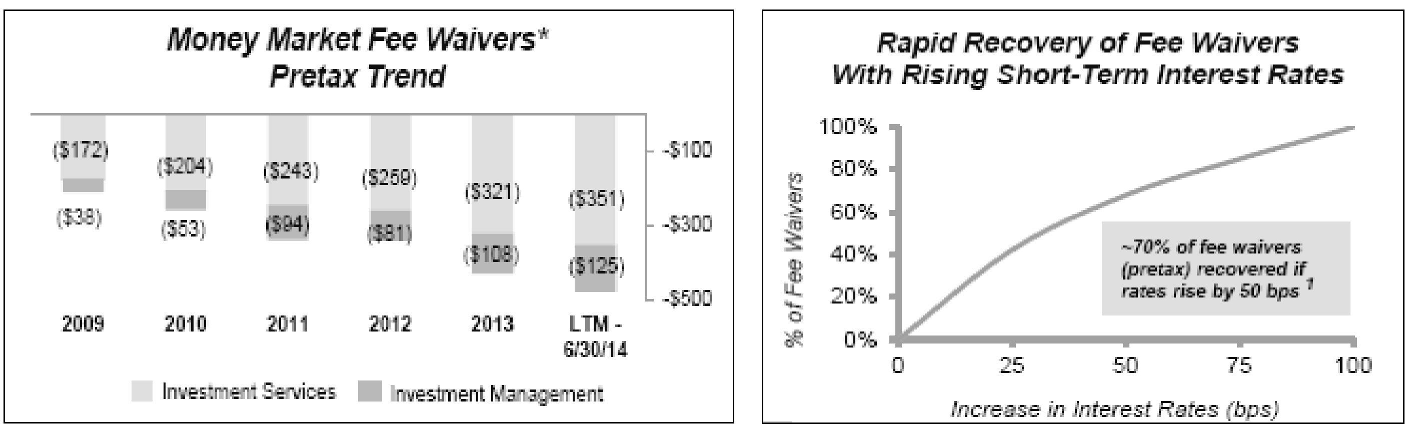
Unfortunately, NIM declines have continued through 2014 and NIR has actually declined in 2014 as well. BK's 3Q14 net interest margins were down 22 bps YOY to 0.94% while NIR declined 6.5% to $736 million (FTE). These declines have been particularly driven by NIM pressure in Europe, where the weak economy and disinflation led the European Central Bank to further cut rates in October. This included imposing a (20) bps penalty on overnight deposits. On the positive side, long-term Euro denominated deposit liabilities have already declined to just 15% of average deposits as of 3Q14. The Company began implementing a 20 bps surcharge on Euro denominated deposits in October to counteract the negative ECB rates, and competitors are following BK's lead. BK is also taking cautious steps to mitigate the impact by moderately extending duration where appropriate and transitioning from interbank loans to high quality liquid securities that offer higher yield.

While the interest rate environment has been far worse, for far longer, than almost all expected, we are cautiously optimistic NIM could stabilize and even begin to expand in 2015. Expectations for a Fed rate hike are hardening, with forward rates currently implying a ~75% chance by October 2015. However, the pace of rate increases is likely to be slow and it is still unclear what the net impact will be for BK over the next 1-2 years. As we have previously stressed, a significant amount of the non-interest bearing deposits that have poured onto BK's balance sheet in recent years are likely to be withdrawn in a higher rate environment. The Company recently disclosed they estimate $40-$70 billion of deposit runoffs in a normalized interest rate environment. The Company also projected NIM could recover to 125-150 bps over the next 3 years in a normalizing interest rate environment. But management even admitted they are entering unchartered territory and it is nearly impossible to predict the interplay between deposits and NIM going forward. In our view, the Company's NIM target could be overly ambitious for the 2015-2017 timeframe; the Company's projections under its normalization scenario for a 25 bps increase in Fed Funds rate per quarter beginning in 2Q15 appear optimistic. On the other hand, deposits could prove stickier than expected. But assuming $55 billion in net outflows and only a modest uptick in NIM to 125 bps, this still implies $3.3 billion in NIR or ~$0.20/share in incremental after-tax earnings power. While a return to 2% NIM is unlikely for the foreseeable future, there is plenty of room for additional upside over the longer term.

Additional Upside in Money Market Funds

Money market funds and other cash management vehicles make up a whopping $293 billion or 18% of BK's $1.65 trillion in AUM. The Company (and the industry) has been forced to implement fee waivers in order to retain these assets in the current zero short-term interest rate environment. While the impact of money market fee waivers was anticipated to bottom years ago, it has actually continued to accelerate. As illustrated below, the estimated pretax impact was a combined $429 million between the Investment Services and Investment Management units in 2013 and reached $476 million TTM 2Q14. Importantly, BK estimates the Company could recoup ~70% of these waivers if interest rates were to rise just 50 bps—which does not appear infeasible over the next 1-2 years. Prices may remain below pre-crisis levels in a recovery, and fund managers, asset servicers (distributors), and investors are likely to share the benefits of higher short-term rates. Nonetheless, a recovery of even 70% of fee waivers would translate to a ~$0.20/share benefit to net income. Longer term results could benefit from greater fee waiver recovery as well as upside from a return to net inflows as opposed to the $21 billion in net outflows since the start of 2012.

Non-Governmental Money Market Size, 2008-2012



Source: Company presentation, September 2014

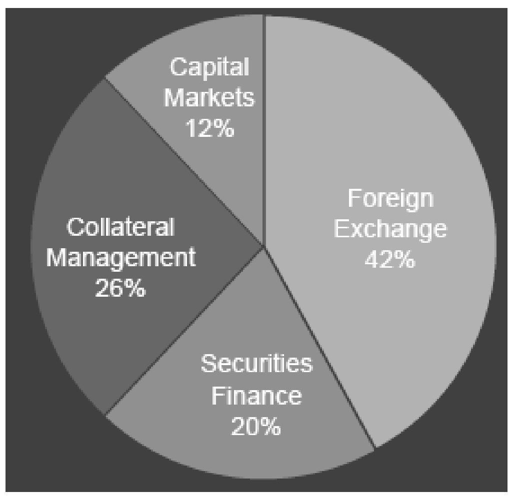
Signs of Restructuring as Activist Shareholder Enters Picture

Recently BK has shown signs of taking steps to redirect its strategy and refocus on core profitability. In part this dates to CEO Gerald Hassell's assumption of control in August 2011. While his predecessor Robert Kelly built up Mellon/BK through a series of large-scale acquisitions, Mr. Hassell has refocused on internal profitability, reinvesting in the business, favoring share repurchases over M&A, and reorganizing or shedding underperforming businesses. While we believe these are not insignificant steps in the right direction, and BK shares have outperformed since his promotion, nevertheless the operating improvement has been underwhelming. Encouragingly, an activist investor (familiar to several AAF names) also entered the scene in 2014: Nelson Peltz-led Trian Partners disclosed a 2.5% stake in BNY Mellon on June 30, 2014. Notably, Trian waged an activist campaign against leading custody bank rival State Street beginning in 2011, focusing on the Company's bloated expense structure and sub-par acquisition record while calling for a separation of its investment management business. While the latter did not materialize, State Street has made good progress in improving profitability while gaining market share. We are cautiously optimistic that the presence of Trian could be a catalyst for more aggressive cost cutting/reorganizational action at BNY Mellon. Trian has made few statements about its intentions and has not waged a public activist campaign, but the investment firm has reportedly been engaged in discussions with BK management. This is consistent with the firm's philosophy to initially attempt to work with the target company management behind the scenes, so we would not be surprised to see a more aggressive public approach down the line if this does not prove fruitful.

New Markets Group & Executive, Director Changes

Mr. Hassell and BK have already stepped up the pace of restructuring in 2014 to date. Organizationally, this has included rearrangements and divestitures as well as several managerial changes. In June 2014, the Company announced it would combine its Global Markets, Global Collateral Services, and Prime Services groups into a new organization titled BNY Mellon Markets Group. By combining these groups, the Company hopes to eliminate duplicative costs/redundant activities, rationalize client coverage teams, and collaborate on enhanced electronic platforms. As mentioned, BK also shuttered the Global Markets' derivatives sales and trading business shortly after this reorganization. BK is targeting 8%-10% revenue growth and 40%-plus operating margins for the new unit.

Markets Group 2014E Revenue Contribution (Total Revenue $1.3B)



Source: Company presentation, October 2014

Alongside this reorganization came several major upper management changes. Investment Services Vice Chairman and CEO Tim Keaney resigned, and the CEO of the former Global Markets, Art Certosimo, will retire. IS President Brian Shea is taking over for Mr. Keaney, while Global Collateral Services head Kurt Woetzel was elevated to President of Markets Group. Interestingly, the Markets Group will now report to Investment Management Vice Chairman and CEO Curtis Arledge. Vice Chairman and Chief Risk Officer Brian Rogan concurrently announced his retirement.

BNY Mellon also nominated two new directors to the board in recent months—presumably to pacify restless shareholders. In April 2014, private equity executive and former Treasury Under Secretary Jeffrey Goldstein was elected to the board. In September 2014, John Hinshaw, EVP of Technology and Operations at Hewlett-Packard, was appointed as a 14^{th} board member.

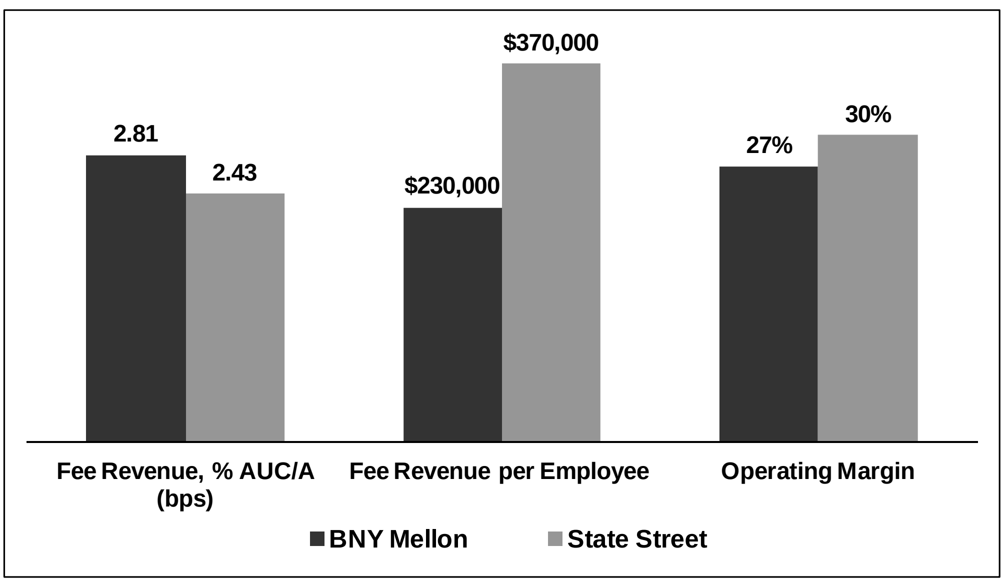
Restructurings and Divestitures

The Company has made several additional divestiture, restructuring and cost savings announcements in recent months. The Company implemented broader staff reductions beyond the aforementioned, recording a $100 million severance charge in 2Q14 that management claims will generate $50 million in annual savings by the end of 2014 and a $100 million run-rate in annual savings by 2015. In May, the Company accelerated its real estate rationalization strategy with the announced sale of its corporate headquarters in New York City for $585 million ($204 million after-tax gain). The Company is reducing its NYC footprint by ~750k square feet as part of the move, and management recently indicated they believe there is more room to reduce its higher priced real estate footprint in Pittsburgh, Boston, London, etc. The Company also sold its minority stake in Wing Hang Bank in July 2014 for an after-tax gain of $315 million. BK also divested some smaller units over the past year including its Mexican corporate trust business ($65 million) and its Newton private client group ($120 million). On a much bigger scale, the Company also explored alternatives for its entire Corporate Trust unit earlier this year. However, the Company announced it would retain the unit in July after receiving disappointing bids; CEO Hassell stated the business is worth "substantially more" than external estimates (reportedly $2.5 billion or more). We tend to agree with the decision considering $2.5 billion would translate to less than 5x 2013 pretax earnings which could prove to be close to trough levels.

Cost Cutting Measures: Plenty More Fat to Trim?

The recent announcements are clearly a step in the right direction for BNY Mellon. However, we believe there is plenty of room for incremental cost savings. We would remind investors that in late 2011, BK management laid out projections for 3%-5% annual revenue growth and 100-300 bps of annual operating margin expansion over the following 3 years. This included a restructuring plan targeting $650-$700 million in annual savings by 2015, including 3,000 job cuts. Looking back even further, BNY Mellon had a combined employee base of approximately 40,000 at the end of 2006, just after the close of the Mellon merger. At the time, BK management laid out merger synergy targets including cutting 3,000 jobs and reducing pre-tax costs by approximately $700 million, or 8.5% of the combined 2006 expense base, by 2010. Instead, operating margins have plummeted from ~38% in 2008 to 29% in 3Q14, despite management claiming $716 million in annual run rate savings had already been achieved by 4Q13. The Company's employee count has ballooned to 50,900 and is still roughly flat year-on-year despite the recent restructurings. Another telling statistic is fee revenue per employee, which declined from $291,000 in 2007 to $237,000 in 2011 and is approximately $230,000 over the past twelve months.

BNY Mellon Drastically Underperforming vs. State Street (TTM 3Q14)



The macroeconomic and regulatory environments have clearly been far worse than anticipated at the time of the Mellon merger, but the cost cutting results over the ensuing 8 years are still very disappointing. By comparison, we would note State Street is drastically outperforming versus BNY Mellon, generating ~$370k per employee in fee revenue and 30% operating margins TTM. This despite the fact that based on our estimates, BNY Mellon generates significantly higher fee revenue (excluding investment management fees) as a percentage of AUC/A than State Street (2.81 bps vs. 2.43 bps). We believe this disparity reflects underwhelming synergies from major acquisitions over the years. Beyond the BNY/Mellon merger of (near) equals, this includes

JP Morgan's Corporate Trust business (acquired near the market peak in 2006) and PNC's GIS business, acquired in 2010. Looking farther back, Bank of New York alone acquired over 90 companies in the 10 years preceding the Mellon merger. We believe the Company never fully integrated these acquisitions, staff was not rationalized, duplicative costs were not eliminated, and systems infrastructure (IT, software, compliance, back office, etc.) were never fully integrated. Merger and integration, restructuring, and legal/litigation charges have also been recurring "one time" charges over the years; the average impact was $80 million per quarter since the start of 2012.

If properly addressed, this presents a major opportunity for BK and its shareholders. We believe CEO Hassell is taking greater steps than his predecessor, and Trian Partners/restless shareholders are likely to hold his feet to the fire. The only public statement we have heard from Nelson Peltz regarding Trian's BK investment expressed a similar line of thinking: He noted, "From 2010 to today, State Street's margin has increased 250 bps, and BNY Mellon decreased by 400 bps," calling that an opportunity.[2] While we believe the recent severances were far too modest, BK has already announced several additional steps. In addition to real estate rationalization and procurement savings, management claims to be targeting discretionary expenses, consolidating operating systems, and improving return on IT spending. BK is in-sourcing technology infrastructure and application development spending that was previously contracted out year after year with poor ROI. BK aims to "develop a common architecture and in-source application development." For example, the Company is working on consolidating its custody platforms from 3 to 1, and fund accounting from 5 to 3.

Across all expenses, management is targeting ~$500 million run-rate in annual savings. However, this is unlikely to flow to the bottom line; the Company expects to utilize a significant portion of these savings to fund incremental regulatory costs and strategic platform investments. BK management recently stated they do not believe the regulatory burden has peaked, but that incremental compliance costs should grow at a slower rate than revenue going forward. In this case faster revenue growth may be necessary to drive meaningful margin expansion. Absent this, we would expect to see investor pressure on BK management to continue to rise.

Assessing Investment Management Value and Separation Potential

At *Asset Analysis Focus*, we have previously discussed the underlying value of BK's Investment Management business hidden under the much larger corporate umbrella. While BK's custodial/services business also has many attractive characteristics, the Company's IM business is higher margin (excluding money market fee waivers), higher growth, and has a higher ROE/far lower capital and regulatory burdens. As such, the IM business would likely garner a significant valuation premium as a standalone entity. While we have long alluded to the potential benefits of a spinoff, investor/analyst sentiment has also turned this way over the past 1-2 years. With the addition of Trian—who campaigned for but ultimately failed to win a separation of State Street's asset management business—the pressure is only likely to increase. BK management has very publicly stepped up its defense of the integrated model in response. In recent years BK management has also emphasized efforts to grow the Investment Management business outside its core client base, with initiatives including developing the retail sales channel and expansion in higher-growth emerging markets. However, it is difficult to see any evidence that these efforts have gained enough traction to move the needle. Below we review the IM business and the case for (and against) a separation.

BNY Mellon manages $1.65 trillion in assets across a wide range of strategies. The largest share of BK's assets under management are dedicated to liability-driven investment (LDI) strategies. LDI solutions cater to pension/defined benefit plan sponsors, providing customized long-term asset and liability management plans based on specific needs. Insight is the largest LDI provider globally. BK also manages passive index strategy funds of $345 billion and cash/money market funds totaling $293 billion. BK breaks down institution vs. retail AUM as 81% vs. 19%, respectively.

[2] http://www.institutionalinvestor.com/Article/3382825/Peltzs-BNY-Mellon-Campaign-Underscores-Custodians-Need-to-Streamline.html#.VCxfT_ldVjY

BNY Mellon AUM at Period End by Client and Product Type

	2012				2013				2014		
($ in billions)	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**
AUM by Client											
Institutional	$829	$835	$882	$894	$ 939	$968	$1,041	$1,072	$1,118	$1,109	$1,131
Mutual Funds	404	388	398	411	405	378	407	425	415	440	430
Private Client	69	70	73	75	79	81	84	86	87	87	85
Assets Under Management	$1,302	$1,293	$1,353	$1,380	$1,423	$1,427	$1,532	$1,583	$1,620	$1,636	$1,646
AUM by Product Type:											
Equity	18 %	17 %	17 %	17 %	17 %	17 %	17 %	17 %	17 %	17 %	16 %
Fixed Income	15 %	15 %	15 %	15 %	15 %	15 %	14 %	14 %	14 %	14 %	13 %
Index	17 %	17 %	18 %	18 %	19 %	20 %	20 %	20 %	20 %	21 %	21 %
Liability-driven investments	22 %	23 %	23 %	24 %	25 %	25 %	26 %	26 %	27 %	27 %	28 %
Alternative investments	4 %	5 %	4 %	4 %	4 %	4 %	4 %	4 %	4 %	4 %	4 %
Cash	24 %	23 %	23 %	22 %	20 %	19 %	19 %	19 %	18 %	17 %	18 %
Total AUM	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

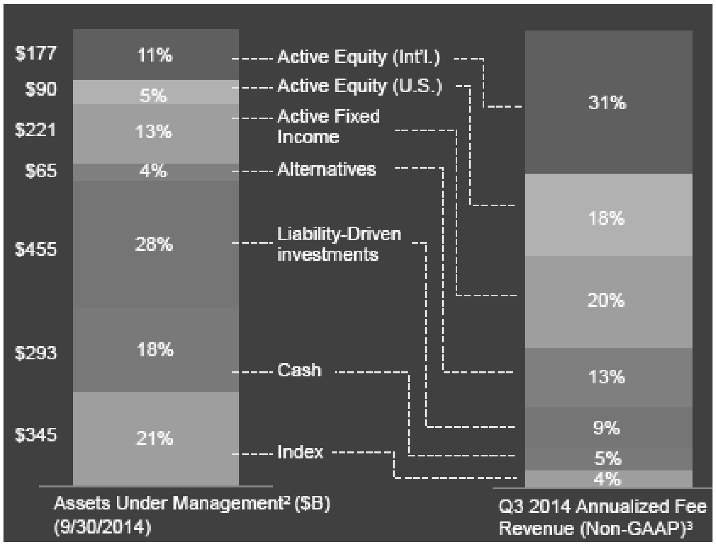
Fund flows have been primarily concentrated in liability-driven investments in recent years as sponsors look to de-risk plans, manage underfunding, and navigate the low interest rate environment. BNY Mellon has recorded LDI inflows totaling $110 billion from the start of 2012 to September 30, 2014. Equity funds actually produced a small cumulative net outflow of $7 billion over the same period. Although this partially reflects the broader risk-averse sentiment toward equities post-financial crisis, we would note that industry-wide domestic mutual fund net flows are roughly flat since the start of 2013, with stronger results from global mutual funds and alternative equity funds. Clearly, BK's equity funds have underperformed. According to the Company, only 49% of active equity AUM outperformed their benchmarks over the past 5 years.

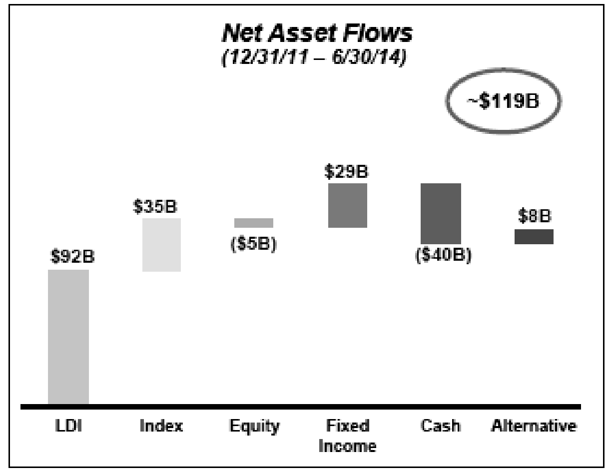
BNY Mellon AUM Net Flows by Product Type

	2012				2013				2014		
($ in billions)	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**
AUM - Beginning of period	$1,255	$1,302	$1,293	$1,353	$1,380	$1,423	$1,427	$1,532	$1,583	$1,620	$1,636
Net inflows (outflows):											
Long-term:											
Equity	2	(1)	–	(1)	1	1	3	(5)	(1)	(4)	(2)
Fixed income	5	7	5	2	5	2	(1)	5	–	(1)	–
Index	(2)	7	5	(1)	12	8	2	(3)	–	7	(3)
Liability-driven investments	–	11	–	14	22	11	27	4	20	(17)	18
Alternative investments	2	2	(1)	–	–	(1)	1	1	2	2	–
Total long-*term inflows (outflows)*	7	26	9	14	40	21	32	2	21	(13)	13
Short-term**:**											
Cash	(9)	(14)	9	(6)	(13)	(1)	13	6	(7)	(18)	19
Total Net inflows (outflows)	(2)	12	18	8	27	20	45	8	14	(31)	32
Net market/currency impact/other	49	(21)	42	19	16	(16)	60	43	23	47	(22)
AUM - End of period	$ 1,302	$1,293	$ 1,353	$1,380	$1,423	$1,427	$1,532	$1,583	$1,620	$1,636	$1,646

The Company's active fixed income fund flows have also underwhelmed in comparison to the category as a whole; net inflows of $29 billion since the start of 2012 represents a relatively modest 14% of 3Q14 active fixed income AUM of approximately $210 billion. Likewise for indexing strategy assets under management, which have experienced a modest inflow of $32 billion since the start of 2012. The Company's total index strategy AUM have increased an estimated 13% over the past 4 quarters. This is less than half the rate of the 28% increase in all overall ETF balances over the past 12 months to $1.88 trillion (held by domestic companies) as of August 2014, according to Investment Company Institute. The Company's evolution of AUM by client type reflects a similar pattern. Institutional AUM have grown 36.4% from 1Q12 to 3Q14, versus only 6.4% growth for mutual fund assets.

BNY Mellon AUM Fees and Flows by Product

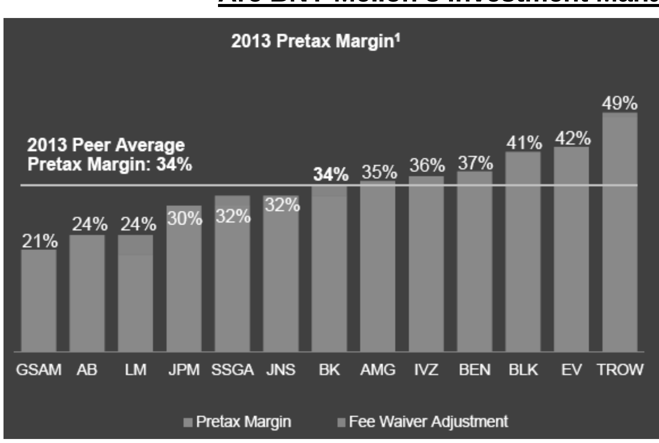


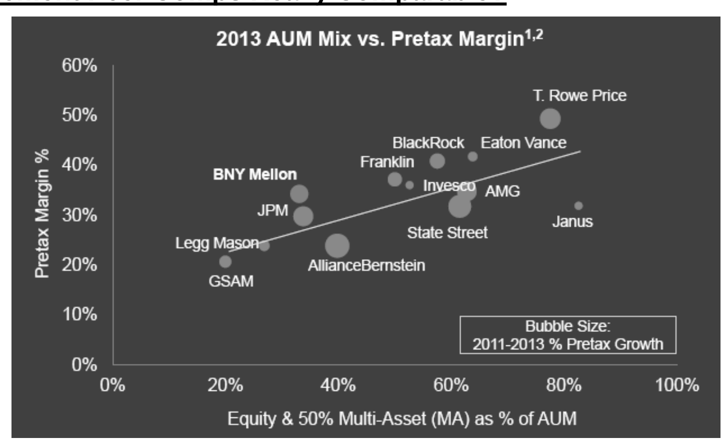


Source: Company presentations

From a profitability perspective, BK management claims the Company's IM division is competitive. The Company cites adjusted pretax operating margins of 34% in 2013. As illustrated below, the Company also cites the above-average margins when analyzed based on AUM composition, given BK's relatively modest concentration in higher fee generating active equities. However, we would note BK's adjusted margin figure excludes money market fee waivers (at all companies where applicable and disclosed). Including the impact would have reduced BK's Investment Management margins by roughly 300 bps. While this should not be a permanent factor going forward, it is real, the road to money market fund recovery could be long, and money market margins are likely to remain below average. Furthermore, we suspect this does not include a consistent allocation of corporate expenses across firms. BK's Other operating segment reported in excess of $900 million in annual noninterest expense (excluding amortization of intangibles, M&I and restructuring charges) in recent years, and $560 million YTD 3Q 2014. With Other segment revenue primarily consisting of investment income and securities gains on the Company's investment portfolio, we believe Other segment expenses should be allocated to the operating units. Including an allocation of Other expenses proportional to segment revenue, this would reduce BK's Investment Management operating margins by another ~500 bps.

Are BNY Mellon's Investment Management Peer Comps Really Comparable?





1 Pretax margins adjusted to exclude amortization expense with revenues net of distribution expense and non-recurring items where applicable and available. Fee Waiver adjustment taken from company filings where disclosed. Peer Average Pretax margin excludes BNY Mellon. Derived from company filings through year-end 2013 and may not be comparable to BNY Mellon's calculation.

1 Adjusted to exclude money market fee waivers for BNY Mellon and all peers, where applicable and disclosed.

2 Figures on this page are non-GAAP numbers.

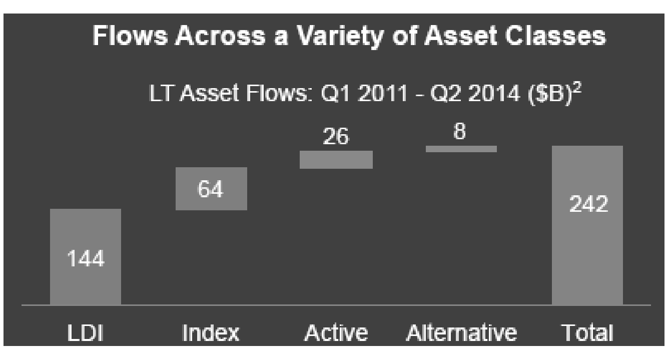
Source: Company presentation, October 2014

Better Together or Separate?

This begs the question: Would BK's Investment Management business be better off independent of the custody business? The Company has begun to address questions concerning the rationale for keeping the two business units together in earnest. However, to date management has stridently resisted calls for a breakup. They cite the strong cross-selling synergies and cross-platform capabilities between the Investment Management and Investment Services businesses and the (unspecified) customer overlap. Management has also cited the parent Company's rock solid, AA rated balance sheet as providing a valuable selling point for institutions/corporations looking to limit counterparty exposure. According to the Company, the Investment Management business also positively impacts the Company's capital performance in the Federal Reserve-mandated stress tests.

Despite management's arguments otherwise, we believe a strong case can be made for separating/selling all or at least some of the Investment Management units. The Company's claims of "intellectual capital" synergies and cross platform advantages sound fluffy and unsubstantiated to our ears. The business' mediocre performance in raising funds post-crisis as well as its uncompetitive/underwhelming cost structure suggest there could be greater benefits from being a standalone investment management entity. The more traditional equity and fixed income managers, in particular, would be unlikely to suffer materially by losing affiliation with the Company's Investment Services business. As a standalone entity or part of a larger pure-play investment manager, the Company's funds could better attract and incentivize talent and/or be folded into better performing funds/managers. Given the apparent mediocre performance of many funds in recent years, this may be no small benefit. Alternatively, considerable cost savings as well as fund marketing/distribution synergies could likely be achieved under the umbrella of a larger organization with a stronger retail distribution platform.

A more credible case can be made that BK's LDI strategies would suffer from a loss of the custodial relationship with the pension plan customer base. The Company's money market/cash management funds, and to a lesser extent the indexing strategies, also primarily appeal to institutions that are existing or possible custodial service customers. However, BK management has yet to provide any hard data to support the case that these funds are worth more under the BK umbrella. The synergies could plausibly be preserved through negotiating a long-term affiliation/cross-selling arrangement prior to separation. In any case, the vast majority of the IM segment's value could be uncovered without necessarily separating these funds given their low fee structure. Overall, as illustrated previously, active equity and fixed income strategies generate 69% of IM fee revenue versus just 29% of AUM. The fee disparity is ever starker when focusing only on long-term assets under management. According to the Company, LDI and index funds accounted for only $156 million or 5% of management fee revenue from long-term assets, net of distribution expense, TTM 2Q14. In the case of money market funds, they are actually severely negative in the current environment. In our view, these factors support either (1) the active funds could be separated from BNY Mellon and capture most of the IM business' value, or (2) all IM units could be separated, since the "core" LDI/cash funds are not providing material direct economic benefit to BK.



	All Long-Term Assets			Ex. LDI / Index Total Growth (Flow + Market)
	2011	2Q 2014		2Q 2014
Mgmt Fee Revenue (MM)[3]	2,454	2,891	+156	2,735
Avg. AUM (B)[4]	904	1,303		993
Revenue / AUM (bps)	27.2	22.2		27.5

Source: Company presentation, October 2014

Furthermore, we would note that the vast majority of BNY Mellon's assets were acquired through the Mellon Financial merger in 2007. Bank of New York held only $131 billion in assets under management ($191 billion including foreign exchange overlays and securities lending-related funds) at the close of 2006 versus Mellon's $995 billion in AUM. Yet Bank of New York's lack of investment management scale did not hinder operational performance prior to the merger. The Company was highly profitable and managed to attract $13 trillion in assets under custody (versus Mellon's $4.5 trillion) without a major integrated investment management business. Nor did this appear to negatively impact investor sentiment toward the Bank; the Company regularly traded at a higher earnings multiple than its recent range. As we have already detailed, the anticipated synergies from the merger never materialized (an understatement). Finally, regarding the capital benefits, we would note that the IM segment is actually a modest ~100 bps drag on the combined Company's current capital ratios. A separation of the IM business from BNY Mellon, a designated Systemically Important Financial Institution (SIFI), could also significantly reduce the IM unit's regulatory and other compliance costs.

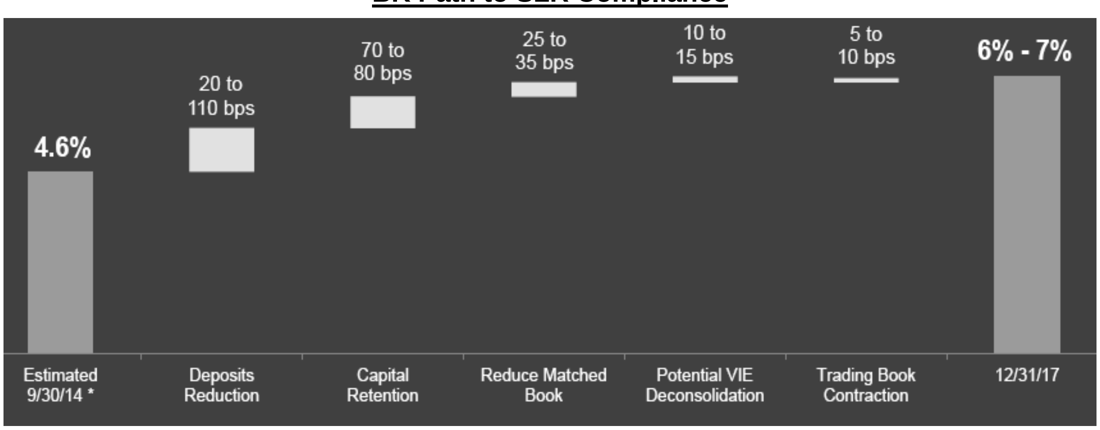
While Trian's efforts to separate State Street's investment management business did not succeed, State Street's business has a very different profile. Almost all of State Street's AUM are in passive equity and fixed income products like ETFs or index-like vehicles. While they would have some standalone value, one can also argue these businesses have far stronger cross-selling synergies with a custodial business than do actively managed funds. Finally, we would not dismiss arguments that active funds can create conflicts, or at least the appearance/fear of conflict, with custodial clients and thus deter inflows.

Balance Sheet & Capital Levels

BK is a "strategically important financial institution" (SIFI) under the Dodd Frank Act and subject to additional regulatory burdens including larger capital buffers, stress testing, and Federal Reserve review of capital plans under the Comprehensive Capital Analysis and Review (CCAR). BK remained one of the best capitalized SIFIs through the crisis and has continued to maintain or increase capital ratios in recent years while returning capital to shareholders. The Company's average common equity to average assets ratio stood at 9.9% in 2Q14, while tangible equity to tangible assets reached 6.4% The key Basel III common equity tier 1 capital ratio, on a fully phased-in basis using the advanced approach (more conservative), reached 10.0% in 3Q14—well above the 8% minimum for SIFIs. For what it's worth, BK also holds AA credit ratings at each of the credit rating agencies.

Despite the Company's strong balance sheet, BK has faced increasingly stringent capital requirements including more punishing risk-weighted asset calculations and higher liquidity buffers. The Fed recently announced new liquidity coverage ratio (LCR) rules for banks with over $250 billion in assets. The rules will require BK to hold sufficient high quality liquid assets (HQLA) to cover 30 days of projected outflows from at-risk liabilities in a stressed liquidity scenario, i.e. a "net stable funding ratio." BK will be required to hold 80% of stress case outflows in HQLA beginning in 2015 and a 100% LCR ratio by January 2017. The Company believes it already has a 100%-plus LCR, but will strategically reorganize its balance sheet in the coming quarters to maximize NIR under the new rules.

BK Path to SLR Compliance



Source: Company presentation, October 2014

In April 2014, U.S. banking regulators introduced another liquidity measure particularly aimed at BK/custodial and repo banks. The "enhanced" supplementary leverage ratio (SLR) applies to banks with over $700 billion in assets or $10 trillion in AUC, and requires the identified banks to maintain a 6% SLR (versus 3% for other banks), effective January 2018. BK estimated its SLR was 4.6% at the close of 3Q14, which means the Company will have to take some combination of capital retention, balance sheet restructuring, divestitures, deposit pricing action, and/or preferred stock issuance. As illustrated in the preceding chart, management believes they have a relatively painless path to reaching a 6-7% SLR over the next 3 years.

Strong Capital Return Outlook

The SLR rules may prevent BK from returning capital in excess of annual earnings over the next few years. Nonetheless, the Company remains well positioned to maintain a combined payout ratio (dividends and share repurchases) at or among the highest in its SIFI peer group. The Company paid out a combined 83% of capital to shareholders last year, and after passing the Fed's stress test scenario with flying colors in March 2014, the Fed approved a plan to return another ~83% over the coming year. BK raised its quarterly dividend by 13% to $0.17/share (1.8% yield) in April 2014, and the Company spent $1.2 billion to repurchase 35.0 million shares (3%) YTD through August 8, 2014 (average price ~$35/share). Long-term, the Company aims to return 80-100% of capital generated through dividends (25-30%) and share repurchases (55-70%). We would expect the total payout to remain closer to 80% the next few years given the outstanding SLR capital requirements, but this could trend higher over time.

We would also note that M&A has been de-emphasized since Mr. Hassell took over the Company in 2011. M&A is a "low priority" and will be weighed against the expected ROI on share repurchases, with a 15% hurdle rate, according to management commentary. As illustrated with the (ultimately aborted) exploration of alternatives for the Corporate Trust business earlier this year, opportunistic divestitures are another possible route to build capital and boost returns to shareholders.

Outlook and Valuation

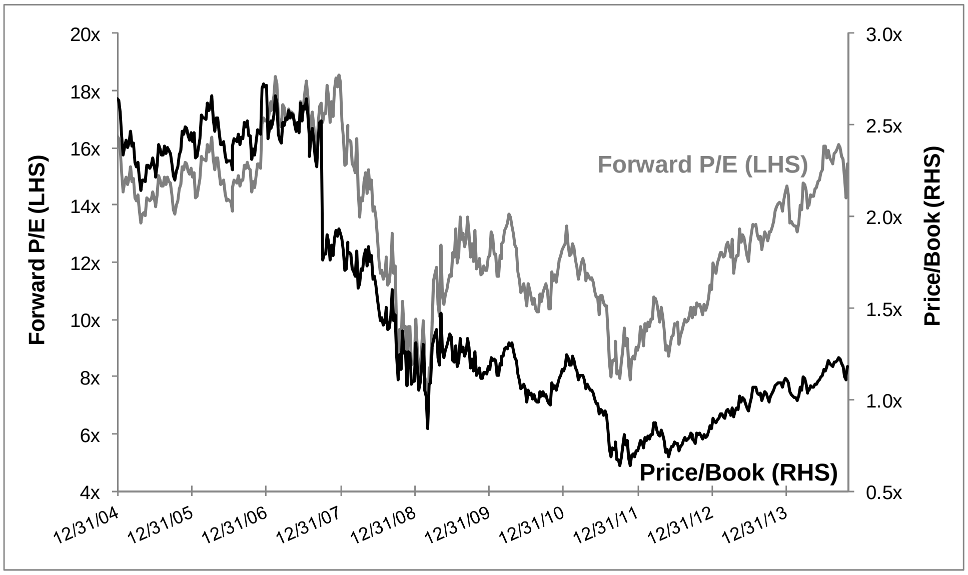
We last profiled BNY Mellon in February 2012, shortly after shares had declined to ~$22 due to unexpected persistence of an unfavorable interest rate/capital markets environment and heightened uncertainty in the euro zone. BK shares traded at a discount to book value despite our calculations suggesting earnings power in a more favorable interest rate/capital markets environment was greater than 50% above then-current levels. Our more conservative projections included 2% annual revenue growth (vs. management's 3%-5% target) and modest operating margin contraction. Unfortunately, even our projections proved optimistic; consensus 2014 EPS estimates have steadily declined to the current $2.39 vs. our February 2012 base case forecast for $2.77 in 2014 and then-consensus above $3/share. This largely reflects greater than anticipated contraction in net interest margins and increasing capital and regulatory pressures. Nonetheless, BK shares have rallied 75% since our last report as valuation multiples have expanded. Despite the strong share performance and multiple expansion, we believe there is still plenty of upside to intrinsic value for BK shares. We would note that shares are still roughly flat over the past 8 years, while operating margins are down over 800 bps from peak levels. BK shares currently trade at reasonable valuations of 1.2x book value and 15x consensus 2015E EPS. As illustrated below, this is roughly in line with BK's longer term historical average and in line with or a discount to BK's trust bank peers based on most metrics.

BK vs. Trust Bank Peers

	Price/Book Value	Price/Tangible Book Value	Price/EPS (2014E)	Price/EPS (2015E)
State Street Corp.	1.6x	2.6x	15.3x	14.1x
Northern Trust Corporation	1.9x	2.0x	20.2x	18.1x
BNY Mellon	**1.2x**	**2.5x**	**16.2x**	**14.6x**

Source: Company filings, Thomson data

BK Historical Price/Book and P/E FTM Ratios, 2005-2014



Source: Company filings, Thomson data

In our view, the corollary to BK's underwhelming recent operating performance is large incremental upside from higher interest rates, more aggressive expense controls, and perhaps even more drastic restructuring. The most straightforward source of earnings upside should come from net interest revenue and money market funds. In our low interest rate/sluggish macro scenario, we project NIM remains at ~100 bps through 2015 before inching up to 125 bps in 2017. Assuming ~$50 billion in net outflows over that time, we project NIR expands by over $300 million to $3.25 billion. If 70% of money market fee waivers are cleared by 2017 (as BK estimates under a 50 bps higher rate environment), the projected combined upside from higher NIR/money market recovery would be in excess of $650 million pretax. We would note that this interest rate scenario is far below that implied by U.S. futures markets, although rate increases in Europe will likely continue to lag well behind the U.S. A more favorable banking/capital markets environment appears likely looking out 2-3 years, which should also boost BK's high margin securities lending, trading, and issuer services revenue—which have collectively declined by well in excess of $1 billion from prior peak levels. Assuming even a modest ~25% recovery in these high margin businesses, along with Investment Management core revenue growth only marginally higher than recent levels at 6%, we believe revenue could exceed $17 billion by 2017(versus less than $15 billion in core revenue in 2014). Conservatively assuming only ~300 bps in core operating leverage to 29% as well as modest additional capital accumulation on the balance sheet, we estimate BK could earn close to $3.30 per share by 2017.

Financial Goals – Operating Basis: 2015-2017

	Flat	Normalized
Revenue Growth	**3.5%-4.5%**	**6%-8%**
EPS Growth	**7%-9%**	**12%-15%**
Return on Tangible Common Equity	**17%-19%**	**20%-22%**
Assumptions	NIM: 95-100 bps Operating Margin: 28%-30% Environment: No deterioration in volatility, volume, short-term interest rates	NIM:125-150 bps Operating Margin: 30%-32%
	100% Payout Ratio Execution on expense and revenue initiatives Equity market, +5% p.a. Resonable regulatory outcomes Deposits, money market balances and fee waivers recovery as modeled	

NOTE: Financial projections are reflected on a non-GAAP basis – excludes merger and integration, restructuring and litigation expenses and other non-recurring items.

Source: Company presentation, October 2014

As illustrated in the preceding table, these projections are roughly in line with the high end of BK's 2015-2017 financial goals in a "flat" economic environment (short term interest rate, volatility, etc.) as recently detailed in the Company's October 2014 Investor Day. The Company estimates EPS growth of 12%-15% is possible in a more favorable, "normalized" environment. Longer term, we believe there is plenty of incremental upside in a better rate environment and/or from more aggressive cost cutting. As we detailed, BK's margins have vastly underperformed its closest peer State Street in recent years. In a scenario with slightly higher ~6% compound annual revenue growth and margin recovery to 32%, we estimate BK could earn close to $3.60 per share in 2018. We would also expect to see BK shares experience a material re-rating from investors at the first sign of net interest margin recovery; we have already seen positive short-term responses to any news flow suggesting hardening Fed rate hike expectations in recent months. Nonetheless, we apply a 16x multiple—in line with BK's current multiple and long-term historical averages—to our base case 2017E EPS scenario to derive an intrinsic value estimate close to $53 per share. Inclusive of dividends, this translates to total return upside to intrinsic value in excess of 42% over the next 3 years. BK retains a high quality balance sheet that provides downside support in the event of an economic contraction in the interim, while offering a rate of return of capital to shareholders among the highest of its mega-cap bank peers.

BNY Mellon Estimate of Intrinsic Value

	2017E
Diluted EPS	$ 3.29
Target multiple	16x
Estimate of Intrinsic Value per share	$ 52.68
Current Share Price	$ 38.72
Implied Upside to Intrinsic Value	36.1%
Implied 2017 E Price/Book Ratio	1.3x
Implied 2017 E Price/Tangible Book Ratio	2.5x

In our view, steadily growing investor pressure—including the recent entry of a well-regarded activist shareholder—could help catalyze BK to finally realize its latent, underlying earnings potential. Furthermore, management has already shown positive signs of becoming more proactive in recent months, including making several top executive and board changes, unveiling a more detailead long-term cost savings/investment plan, and executing or exploring multiple divestitures. More drastic action is possible in the next 1-2 years if results do not improve. While CEO Hassell has so far resisted calls to separate the Investment Management business, we would not dismiss the possibility that management eventually accedes to shareholder pressure. As we have detailed, a separation of the Investment Management unit could provide the incentive structure to spur improved fund performance and asset gathering, particularly in the more valuable (and underperforming) active equity and fixed income divisions. Over the long term, we believe BK's Investment Services business is well positioned to benefit from multiple secular tailwinds including an increasingly globalized financial system (translating to depositary receipt, foreign exchange trading, etc. demand), increased complexity and regulatory burdens (collateralization and securities lending demand), and greater focus on cost controls and balance sheet management (back office outsourcing) in the post-crisis Basel III financial system. Given these tailwinds as well as the leverage to a more favorable macro environment, we do not believe BK/the Investment Services business would receive a material contraction in its valuation multiple were the Investment Management business to be separated. As such, there could be significant upside to our base case intrinsic value estimate for BNY Mellon in a breakup scenario.

Risks

Risks that The Bank of New York Mellon may not achieve our estimate of the Company's intrinsic value include, but are not limited to, reduced capital markets activity; declines in global asset values; further declines in interest rates or a more extended period of low interest rates than anticipated; lending counterparty default; more onerous capital requirements and/or equity dilution related to challenges achieving adequate regulatory capital; other regulatory changes; negative litigation resolution; capital misallocation; and failure to achieve expense savings.

Analyst Certification

Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts' compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.

THE BANK OF NEW YORK MELLON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
($ in millions, unaudited)

ASSETS	June 30, 2014	Dec. 31, 2013
Cash and due from:		
Banks	$ 6,173	$ 6,460
Interest-bearing deposits with the Federal Reserve and other central banks	105,657	104,359
Interest-bearing deposits with banks	41,459	35,300
Federal funds sold and securities purchased under resale agreements	15,062	9,161
Securities:		
Held-to-maturity	19,102	19,743
Available-for-sale	85,688	79,309
Total securities	104,790	99,052
Trading assets	10,856	12,098
Loans, net allowance for loan losses	59,061	51,447
Premises and equipment	1,590	1,655
Accrued interest receivable	624	621
Goodwill	18,196	18,073
Intangible assets	4,314	4,452
Other assets	22,530	20,566
Subtotal assets of operations	390,312	363,244
Assets of consolidated investment management funds, at fair value	10,428	11,272
TOTAL ASSETS	**$ 400,740**	**$ 374,516**

LIABILITIES, TEMPORARY EQUITY AND PERMANENT EQUITY		
Deposits:		
Noninterest-bearing (principally U.S. offices)	$ 109,570	$ 95,475
Interest-bearing deposits in U.S. offices	52,954	56,640
Interest-bearing deposits in Non-U.S. offices	119,915	109,014
Total deposits	282,439	261,129
Federal funds purchased and securities sold under repurchase agreements	10,301	9,648
Trading liabilities	6,844	6,945
Payables to customers and broker-dealers	17,242	15,707
Other borrowed funds and Commercial Paper	1,485	759
Accrued taxes and other expenses	6,433	6,996
Other liabilities	7,066	4,827
Long-term debt	20,327	19,864
Subtotal liabilities of operations	352,137	325,875
Liabilities of consolidated investment management funds, at fair value:	9,129	10,131
TOTAL LIABILITIES	361,266	336,006
Temporary equity: Redeemable noncontrolling interests	239	230
Permanent equity		
Preferred stock – par value $0.01 per share	1,562	1,562
Common stock – par value $0.01 per share	13	13
Additional paid-in capital	24,303	24,002
Retained earnings	16,796	15,952
Accumulated other comprehensive loss, net of tax	(402)	(892)
Less: Treasury stock at cost	(3,946)	(3,140)
Total Shareholders' Equity	38,326	37,497
Nonredeemable noncontrolling interests of consolidated investment mgmt funds	909	783
TOTAL PERMANENT EQUITY	39,235	38,280
TOTAL LIABILITIES, TEMPORARY EQUITY AND PERMANENT EQUITY	**$ 400,740**	**$ 374,516**

Asset Analysis Focus is not an investment advisory bulletin, recommending the purchase or sale of any security. Rather it should be used as a guide in aiding the investment community to better understand the intrinsic worth of a corporation. The service is not intended to replace fundamental research, but should be used in conjunction with it. Additional information is available on request. The statistical and other information contained in this document has been obtained from official reports, current manuals and other sources which we believe reliable. While we cannot guarantee its entire accuracy or completeness, we believe it may be accepted as substantially correct. Boyar's Intrinsic Value Research LLC, its officers, directors and employees may at times have a position in any security mentioned herein. Boyar's Intrinsic Value Research LLC Copyright 2014.