INVESTOR DAY 2014: OVERVIEW

Gerald Hassell, BNY Mellon Chairman and CEO
October 28, 2014

Thanks, Izzy; and good morning, everybody. Izzy did not go through our cautionary statements; so, I do have to put you through that, as well. We're delighted you're able to join us here today for our Investor Day. Hopefully, many of you had a chance to visit our Tech Expo right next door where we're doing some really, really cool things on behalf of our clients and also improving the productivity and efficiency of our firm. So if you didn't get a chance to stop by this morning, please stop by after the conference, we'll have some folks take you through some of that technology.

And we have a very full agenda ahead of us today. On today's session, I think we'll demonstrate that we're listening not only to our clients but to you all of our shareholders. That were moving faster with a greater sense of speed and urgency in every single thing that we're doing. We have taken and are continuing to take very aggressive action to improve our earnings and margins no matter what the environment that we're operating in.

And those actions are beginning to pay off and you're seeing it in our numbers. And we're also going to describe some of those actions for you here today.

We're going to give you some performance targets across a variety different metrics that you can hold us accountable to.

We're going to provide greater clarity on our investments and when we expect them to turn into income-producing items for our firm.

We're going to provide more transparency around our balance sheet, our excess deposits and how we're putting those deposits to work through the cycle and simultaneously managing to the new capital ratios and liquidity coverage ratios.

We're also going to talk about how we think about capital allocation and when we don't have a good use for it internally and can't get a great return on it internally, how we're applying that capital to returning it to the shareholders in the forms of dividends and share repurchases.

And finally, you're going to hear from several of our business unit leaders. They'll talk about their visions for the future and how their initiatives are maximizing returns in creating value for both our clients and our shareholders. So let's begin.

BNY MELLON

BNY Mellon is the investments company for the world. We're driven by two engines of growth; Investment Services and Investment Management. We like the fact that we have dual revenue streams out of virtually all our client base and it's a real positive contributor to our earnings and growth in the future. And those same clients have great needs and aspirations for our various services and investment advice.

We like our business model. The long-term trends continue to work in our favor. Pension funds are no longer being created around the world to protect employees; companies and countries can't simply protect the individual investor; and people are having to save for themselves for retirement, for healthcare, for education. Companies and countries will not be able to support the needs of individuals as they once did in the past. Countries are also going to have to invest in the infrastructure and other economic development programs, to improve their own growth rates and to stimulate growth, particularly for maturing economies. So institutions, individuals, sovereigns, all need and want our services and investment advice. And we have the capabilities to provide services to them, to help them grow and achieve their objectives. Interestingly, because of capital rules and other reasons, bank balance sheets will not be available to support the natural economic growth around the world. So investment managers or capital markets more broadly are going to be the suppliers of capital by purchasing securities, whether they be fixed income equities, no matter what the case may be.

We have an Investment Management unit that has strategies to purchase virtually any type of security issued by issuers, be it equities, be it fixed income securities, whether it's in loan form, emerging market equities, no matter what the case. And we also service those same securities and our clients are looking for investment strategies that appropriately balance the risk return rewards through the cycle.

On the servicing side, with everyone feeling the same cost capital pressures that we're experiencing, our clients are seeking scalable, more variable cost models and are turning to us to be able to provide those technology platforms on their behalf. So they're looking for technology platforms that have a variety of applications, that are plugged into our capabilities to help them succeed with their clients.

And our clients also want greater transparency around their various investment strategies and better risk analytics, and we're partnering with our clients to help them with the solutions to better manage their risks and to make better informed decisions.

We have all of these capabilities and services today, including as you saw in the Tech Expo, some very advanced technology platforms that are very flexible, which brings us speed to market in terms of new applications and drives innovative and cost-effective solutions. So we are very, very excited about our future and we think we are in the right place at the right time with our capability.

Now, that being said, we also know that we have to operate in the here now. We have to be much more aggressive in taking steps to address the challenges of the current macro environment. And we've started to take those steps quite aggressively and it's showing up in our results.

So what are our priorities? They're very simple. Delivering value-added services and solutions to our clients that are also profitable for us; taking those earnings and that excess capital and using it effectively and deploying it effectively either in investing in our businesses or returning it to our shareholders; improving our financial performance; increasing our revenue growth rates; and very, very importantly, delivering strong expense control and operating leverage, no matter what the environment. And obviously, last but not least, optimizing our business mix, which I'll talk about in a few moments.

Now, we have a very distinctive business model. As I said, we are the investments company for the world. The twin-engines for growth that I referred to: Investment Services and Investment Management. We are the largest investment services provider with leading market share positions in every single one of our businesses. We're the sixth largest investment manager in the world. And interestingly, we're the third largest that operates within a G-SIFI. Today, we're managing over $1.65 trillion of assets under management. Our business model is fee-based, with 83% of our revenues driven from fee income, the vast majority of which are recurring. So we can in fact grow our business model without the need of credit support and it's a very light need in terms of incremental capital to support that growth.

We're very focused on expenses, particularly on staffing, our real estate footprint, technology and corporate overhead. From a capital point of view, we have some of the strongest capital ratios in the industry. We have extraordinarily strong credit ratings, the highest in the industry anywhere around the world and we are in fact returning that capital to shareholders in a very strong way. In 2013, 83% of our earnings were returned to our shareholders in the form of dividends or share repurchases. Now, we're also focused on driving our earnings while still investing in our businesses and aggressively managing those costs that I spoke about.

So who are we? Again, we are the investments company of the world, with very strong links between Investment Management and Investment Services. You can see here Investment Management generates over $4 billion of revenues and about $1.1 billion of operating income. Investment Services generates about $10 billion of revenues and pre-tax income of $2.8 billion. Now, we deliver expertise around every single phase of the investment lifecycle, whether it's managing assets, creating assets, servicing them, custodizing them, accounting for them, clearing, trading, settling them, everything we do our entire focus as a company is around the investment lifecycle and that's all we do.

Now, one of our strongest and most important attributes of our firm is our client base, it's an incredibly rich and deep client base. It's actually the envy of the industry, whether it's institutions, investors or corporations. Over 80% of the Fortune 500 companies are clients of ours. 75 central banks around the world are our clients and they hold over 90% of the capital reserves sitting in central banks. Over two-thirds of the top 1,000 pension funds around the world do business with us. 75% of the top 100 endowments, 50% of the top 200 insurance companies, all are clients of ours – all have great needs for our services and offer very significant upside potential.

We're also leveraging Investment Management and Investment Services together. We're realizing out on the opportunities that exist within those two enterprises. First and foremost, by leveraging that broad and deep client base that I just referred to. We actually have a partnered sales program going on between Investment Management and Investment Services, and it's yielding very positive results. 75% of our top 100 enterprise clients generate over $3 billion of revenues for us. That's results.

We're also utilizing our platforms on behalf of our businesses and our boutiques. Not surprisingly, Investment Services has some great platforms that our boutiques utilize. Our boutiques also collaborate amongst themselves and operate on different platforms within the center of Investment Management.

We're able to leverage those technologies and that insight for the benefit of our businesses and the benefit of our boutiques. Also, very interestingly, we have some of the best and brightest minds in the world in investment management and also some incredibly great expertise with Investment Services that sit in the room together and collaborate around the entire investment lifecycle. We have deep insights into the investment process and the changing needs of the asset owners and fiduciaries that we represent. The collective power of that intellects sitting in the room, developing new ideas, new investment strategies, leveraging the servicing capabilities that we have across our firm for the benefit of the boutiques and our clients is incredibly powerful.

I want to spend a minute benchmarking our historic performance. At our last Investor Day we showed you what we thought we could deliver. Now, we simply did not deliver on these expectations. Now, the market worked against us, the recovery was much slower, rates were much lower for a lot longer, regulatory costs were higher, but nothing different than anyone else had to experience. So we've had to go back and reset ourselves; and about a year-and-a-half ago, we put in place much more aggressive programs to drive our earnings and drive our revenue streams. So yes, we didn't achieve the results we're looking for three years ago, but we are on a great trajectory today and have great confidence in our ability to deliver results into the future.

During the last two-and-a-half years, we were in fact able to generate significant levels of capital. We generated over $13 billion of capital since 2011, which is really very strong.

What did we do in terms of returning that capital to shareholders? This chart just indicates that if you were to use the consensus earnings of all these institutions represented on this slide and their capital plans as they submitted during the CCAR plans, you will see that we are the highest returner of capital to our shareholders in the form of dividends and share repurchases at 89% of earnings. So in 2013, we returned 83% of earnings. In 2014, using consensus, it's 89%. So incredibly strong returning of capital to our shareholders.

But generating capital and returning capital isn't good enough. We also have to improve the earnings of the company. And we've adopted a continuous process improvement program and mindset within the company. In many ways, we're going back to our roots; we're going back and looking at every single dollar that we've spent, making sure it's spent wisely, in the right place, in the right priorities. And that's part of the reason why we think we have great capabilities of improving our performance going forward.

We also streamlined our organization in June of this year. We streamlined some of the management team which I'll talk about in a moment and we rationalized some of our staffing levels. We'll see the benefits of that rationalization process this year, with about $50 million of savings in staffing and the $100 million of savings will be in place by the mid-part of 2015.

We're also reducing our real estate footprint. Right here in New York City, we sold our headquarters, repositioned some of our staff, taking advantage of open floor plans; and as a result, we are going to reduce 750,000 square feet of space in just downtown Manhattan alone and we see other opportunities to do the same exercise in Boston, Pittsburgh, London, and other locations around the world. So we feel very confident that we can get additional savings out of our real estate footprint.

We're also consolidating operating platforms, while increasing the spend on technology and getting better results out of it and clearly, focusing on all those little items and big items in the discretionary expense category. Every dollar matters; every dollar, we are watching very carefully and making sure we're investing it wisely for returning it to the bottom line.

Also, very importantly, we're optimizing our business mix throughout this process. We've never been afraid to take action on our businesses if they weren't achieving the results we were looking for. So we've sold or shut down over whole variety of businesses that simply did not fit strategically or weren't yielding the results we were looking for. A good example: just recently, we restructured our Markets Group, which Kurt Woetzel will talk about in a moment.

We’ve been taking some costs out and getting out of some businesses that were simply just too capital-intensive or we didn't have the size and scale to operate. We sold our FCM business or shut down our FCM business and derivatives clearing business, both in the US and in Germany. We sold our corporate trust business in Japan and Mexico. We sold our private wealth business in the UK. We sold our accounts payable solutions business and our shareowner services businesses, all with the intent of improving the operating margins and performance of the company and/or releasing capital that can be better applied elsewhere. So we're not afraid to take action on our businesses in order to achieve better performance for our company.

We've also made some substantial changes to our senior management team and in this slideshow here we have a new single Head of Investment Services, a new Chief Information Officer, a new Head of Client Service Delivery (or Operations as many people refer to it). We have a new Chief Human Resources Officer, new Chief Risk Officer, new Head of all of our Markets Group. So again, we're realigning the team, much greater focus, introducing new and improved management team, it's driving the performance of the company. And what's interesting when you promote people into new jobs or bring in new talent from outside, how do you get increasingly different insights into how we operate our businesses. Adding these people and promoting these people are making us a better company. They are raising the bar in terms of the excellence that we expect of ourselves and we expect of our staff and it is in fact permeating the entire organization. As new people come in with new ideas and raise the expectations, it's helping us better perform as a company.

Now, what are some of the revenue growth initiatives that we've been investing in? We've clearly been leveraging our investment services to scale and capabilities, building platforms for private wealth clients, for private banks, for hedge funds, for alternative managers and investing in those areas that Brian Shea will cover in a few minutes. We're also investing in Global Collateral Services. This is a case where the regulatory changes have actually worked in our favor because everywhere now trades have to be collateralized in some form or fashion or be brought to central clearing parties for execution and settlement and we're providing capabilities to help in that collateral management process that actually lowers the cost of capital to many of our buy-side clients as well as sell-side clients. So we're bringing different clients together in our Collateral Services area and creating value for them that's also profitable for us.

In Investment Management, we're investing in the distribution phases, both for wholesalers and investing in getting our products and services and our strategies on third-party platforms as well as investing in our wealth management units that Curtis will speak about in a moment.

We're investing in our electronic trading platforms. We have the same belief that everyone else does, that all trades are going to go to electronic form and we've been investing in those platforms where we capture more volume from our institutional clients. And you'll see in a few minutes that we are in fact realizing on those results as the volumes that we've been capturing have been dramatically increasing.

Also, very interestingly, we have a joint venture going on internally within the company between our Pershing subsidiary and Investment Management, where they are combined building a separately managed account platform in the Asia-Pacific region where it's going to allow our technology platform to be used by private banks and wealth managers and advisors of large institutions in certain countries in Asia. And then, we're also positioning our investment management product on those platforms so that the advisors can help serve their end clients. It's a great collaboration between our two units. We have several clients that are already starting to use the platform and we're going to start to see a take-up in the use of our investment management strategies on it.

How has this translated into better performance financially? You can see from this slide that our fee growth has actually improved over the last 12 months with investment management fee growth of about 5%, led by 7% growth in assets under management; and we've been able to generate net long-term flows of $23 billion into our investment management strategies. In investment services, our fees have grown by 3% and this is fee income growth and it's really been led by our core Asset Servicing businesses, our clearing and our Treasury Services businesses.

That 3% growth is also taking into account the headwinds that we've had from the declining Corporate Trust. We see Corporate Trust turning around in the next 12 to 18 months, and so we won't have that drag into the future. So, I think that the 3% growth takes into consideration the drag we've experienced from Corporate Trust.

On the expense front, we've been managing expenses flat over the last 12 months. Some of the things you can see on the right-hand side of the slide are the areas that we've been focusing on, whether it's staffing levels, simplifying and automating our global platforms, paying close attention to those discretionary items, have all had an impact in our keeping our expenses flat over the last 12 months.

As a result, fees are up, expenses are flat; big surprise, operating margin improves. This is one of our real focuses, delivering positive operating leverage and improving the operating margins of our company. And so, you can see over the last 12 months, the operating margin has in fact improved by 78 basis points across the firm and that's with no change in fee waivers, no change in the other things that may happen into the future. This is just working on it every single day to improve the margins of the company.

Last but not least, we have in fact experienced very strong total shareholder returns. As you can see by this slide, 2012, 2013 and year-to-date 2014, our total shareholder return has beaten all the peer groups and indices in virtually every single category in every single year. So, we are in fact delivering strong shareholder returns.

So in summary, we are in fact creating solutions for our clients and are also value creators for you, our shareholders. We're delivering positive operating leverage; we're generating strong returns on that tangible capital, enabling us to invest in our businesses, increase our dividends and increase our share buyback programs.

Looking forward for 2015 through 2017, the punch line that you all are looking for is that we expect earnings per share to grow; in today's flat environment, no change to interest rates, in the 7% to 9% zone; and in a normalized environment, and that's really taking into consideration the forward curve on interest rates, if you put that into the model, we think we can grow earnings per share in the 12% to 15% area.

Todd's going to cover a little bit more about the assumptions that go into this, but I think we feel very confident that we can deliver on these results and these metrics that you can hold us accountable to.

CAUTIONARY STATEMENT

current and normalized environments; changes in the composition and yield of investment securities in connection with the LCR; target, projected and estimated (in current and normalized environments) capital ratios, LCR and leverage ratios, net interest margin, return on common equity, return on tangible common equity, deposit levels and run-off, EPS and revenue growth; capital plans and position, including target total payout ratio, dividends and share repurchases; possible actions to meet the supplementary leverage ratio requirement and estimated impact to ratio; normalized environment outlook; financial goals in the current environment and normalized environment on an operating basis; strategic priorities and key initiatives in investment management and margin impact; investment management financial goals in a flat and rising rate environment; positioning of markets group for outperformance; markets group strategic priorities and impact on growth, profitability and return on capital; estimated revenue contribution by business line of markets group; markets group revenue growth and operating margin; investment services strategic priorities and transformation process and impact on operating margins and earnings growth; strategic platform investments and margin impact; investment services fee growth; investment services financial goals in a flat rate and rising rate environment; strategic priorities in technology; estimated indexed storage demand, demand for computing, infrastructure cost, headcount, application development unit and total cost and strategic investment as a percentage of portfolio; technology infrastructure and monetizing technology capabilities; and statements regarding the Corporation's aspirations, as well as the Corporation’s overall plans, strategies, goals, objectives, expectations, estimates, intentions, targets, opportunities and initiatives. These forward-looking statements are based on assumptions that involve risks and uncertainties and that are subject to change based on various important factors (some of which are beyond the Corporation’s control).

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