

**From:** Richard Kahn <[REDACTED]>  
**To:** "jeffrey E." <jeevacation@gmail.com>  
**Subject:** Fwd: BNY Mellon: EPS Down on Lower NII, Expense Saves the Wildcard  
**Date:** Fri, 22 Jul 2016 12:05:22 +0000

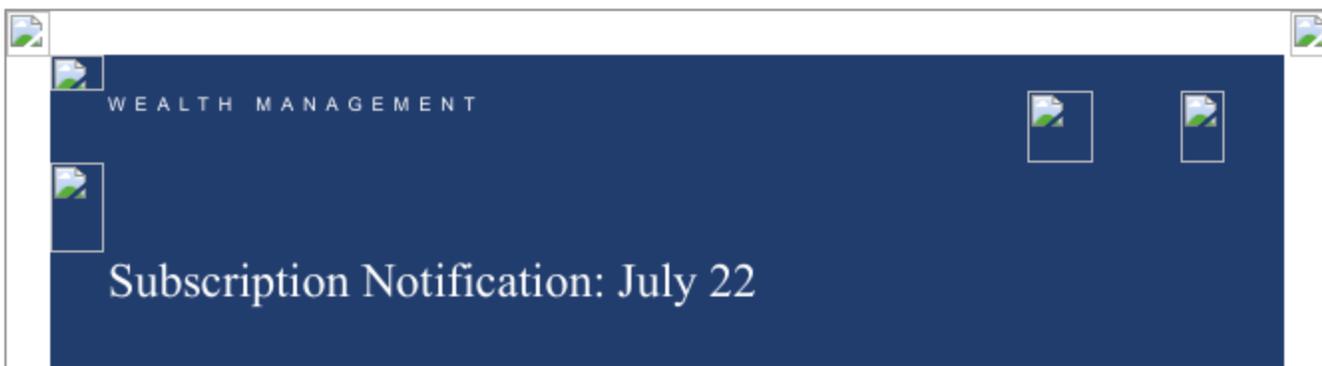
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Begin forwarded message:

**From:** "Morgan Stanley" <[REDACTED]>  
**Subject:** BNY Mellon: EPS Down on Lower NII, Expense Saves the Wildcard  
**Date:** July 22, 2016 at 12:25:13 AM EDT  
**To:** <[REDACTED]>  
**Reply-To:** <[REDACTED]>



**Subscription Notification: July 22**

**[BNY Mellon: EPS Down on Lower NII, Expense Saves the Wildcard](#)**

**Betsy L. Graseck, CFA – Morgan Stanley**  
*July 22, 2016 4:01 AM GMT*

Taking EPS down 1% in 2016 and 1.5% in 2017 as flatter curve pressures NIM. Execution on expense initiatives continued this quarter, and could provide a tailwind to estimates if BK is able to self-fund growth plans amidst higher regulatory costs. With expense saves, the proof is in the pudding.

EPS down on lower NII, partially offset by continued expense discipline: We lower estimates 1% in 2016 and 1.5% in 2017 on the back of an in-line quarter marked by top-line pressures, offset by lower expenses and better credit. Mgmt is committed to keeping

expenses flat y/y in 2016 as upcoming 'Living Will' costs are being offset by savings related to real estate, technology, headcount, and third-party vendors. Our flat expense growth estimate y/y in 2016 yields 110bps of positive operating leverage. Some pushback from investors around the ability for BK to keep expenses flat in the face of higher regulatory costs. Mgmt's efforts to reduce the expense base have shown through since Investor Day, but ultimately the success of the expense initiatives will depend on how deep BK is willing to go in order to drive efficiency gains. Ultimately need higher rates (not in our estimates) to drive material improvement in the expense ratio. We estimate expense ratio staying in the 70% range through 2018, with servicing fees as a % of total expenses at ~95%. Pref issuance and deposit strategy continue to attract investor attention: As part of BK's 2016 CCAR plan, \$560mn of common stock repurchases are contingent on the issuance of \$750mn in preferred stock. BK was the only bank in our coverage to announce a pref-for-common swap, their second year of doing so. We model BK issuing \$750mn in pref in 3Q16 at 5%. With rate hikes likely off the table for now, BK is reengaging in its strategy to reduce excess/non-strategic deposits. This, combined with the additional pref issuance, will help boost SLR (MSE 5.4% by YE16 vs. 5.0% today). CFO's commentary on the call indicated BK had capacity to issue addi

Click [here](#) to see the full report.

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