

PRINCIPLES THAT ENDURE



# *Northern Trust Corporation*

First Quarter 2015

Quarterly Earnings Review

April 21, 2015



**Northern Trust**



# Executive Summary

- Net income of \$230.7 million
- Earnings per common share of \$0.94, up 25% year-over-year
- Return on equity of 11.3%
- The operating environment was mixed:
  - ◆ Equity markets were favorable
  - ◆ Currency volatility was higher
  - ◆ The dollar was stronger
  - ◆ Short-term interest rates remained low
- Assets under custody increased 6% year-over-year and 2% sequentially
- Assets under management were 5% higher year-over-year and up 3% sequentially





# Summary Results & Key Metrics

\$ in millions (except EPS and as noted)

	1Q 2015	% Change Vs.	
		1Q 2014	4Q 2014
Revenue (FTE <sup>1,2</sup> )	<b>\$1,140.7</b>	+9%	-
Noninterest Expense	<b>789.0</b>	+3%	+1%
Provision for Credit Losses	<b>(4.5)</b>	N/M	N/M
Net Income	<b>\$230.7</b>	+27%	-5%
Earnings per Share	<b>\$0.94</b>	+25%	-4%
Return on Equity <sup>3</sup>	<b>11.3%</b>	9.3%	11.5%
Assets under Custody ( <i>in billions</i> )	<b>\$6,091</b>	+6%	+2%
Global Custody Assets ( <i>in billions</i> )	<b>\$3,541</b>	+5%	+2%
Assets under Management ( <i>in billions</i> )	<b>\$960</b>	+5%	+3%

<sup>1</sup> Revenue stated on an FTE basis is a non-GAAP financial measure. A reconciliation to reported revenue prepared in accordance with U.S. generally accepted accounting principles (GAAP) is included in the Appendix on page 11.

<sup>2</sup> Fully taxable equivalent

<sup>3</sup> Actual numbers for all periods, not % change.

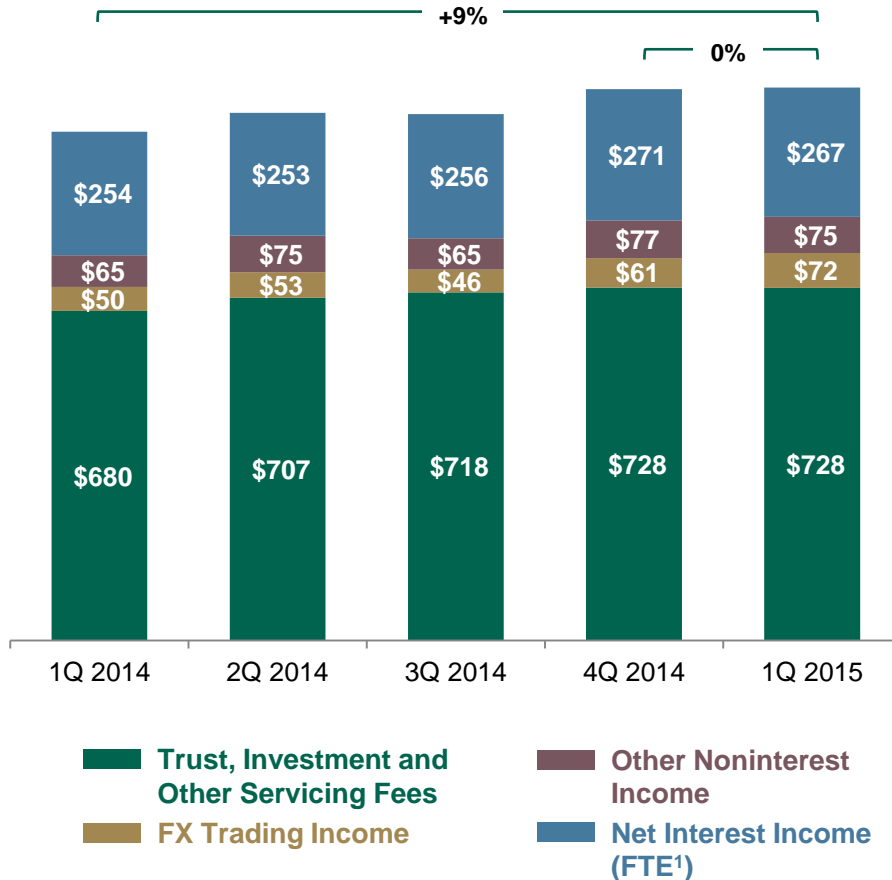




# Total Revenue

\$ in millions

## Total Revenue (FTE<sup>1</sup>)



- Trust, Investment and Other Servicing Fees were up 7% year-over-year and flat sequentially due to new business and favorable equity markets
- ◆ Movements in foreign exchange rates detracted from fee growth in both comparisons
- Foreign Exchange Trading Income increased 43% from the prior year and 18% versus the prior quarter due to higher volatility and client volumes
- Other Noninterest Income was 15% higher than the prior year and 3% lower sequentially
- Net Interest Income (FTE<sup>1</sup>) was up 5% from the prior year but down 2% versus the prior quarter

Categories may not sum due to rounding.

<sup>1</sup> Net interest income and total revenue stated on an FTE basis are non-GAAP financial measures. A reconciliation of these measures to reported results prepared in accordance with U.S. GAAP is included in the Appendix on page 11.





# Trust, Investment & Other Servicing Fees

\$ in millions (except as noted)

<u>Trust, Investment &amp; Other Servicing Fees</u>	<b>1Q 2015</b>	% Change Vs.	
		<u>1Q 2014</u>	<u>4Q 2014</u>
Custody & Fund Administration	<b>\$277.1</b>	+10%	-2%
Investment Management	<b>76.4</b>	+2%	-2%
Securities Lending	<b>21.6</b>	-5%	-1%
Other	<b>32.2</b>	+10%	+13%
<i>Total Corporate &amp; Institutional Services</i>	<b>\$407.3</b>	+7%	-1%
Central	<b>\$130.8</b>	+5%	+1%
East	<b>82.4</b>	+7%	-
West	<b>66.8</b>	+7%	-1%
Global Family Office	<b>40.2</b>	+8%	+2%
<i>Total Wealth Management</i>	<b>\$320.2</b>	+7%	-
<u>Client assets (in billions):</u>			
C&IS AUC	<b>\$5,566</b>	+6%	+2%
Global Custody Assets	<b>\$3,541</b>	+5%	+2%
C&IS AUM	<b>\$727</b>	+4%	+2%
Securities Lending Collateral	<b>\$123</b>	+6%	+6%
Wealth Management AUC	<b>\$525</b>	+4%	+2%
Wealth Management AUM	<b>\$233</b>	+7%	+4%

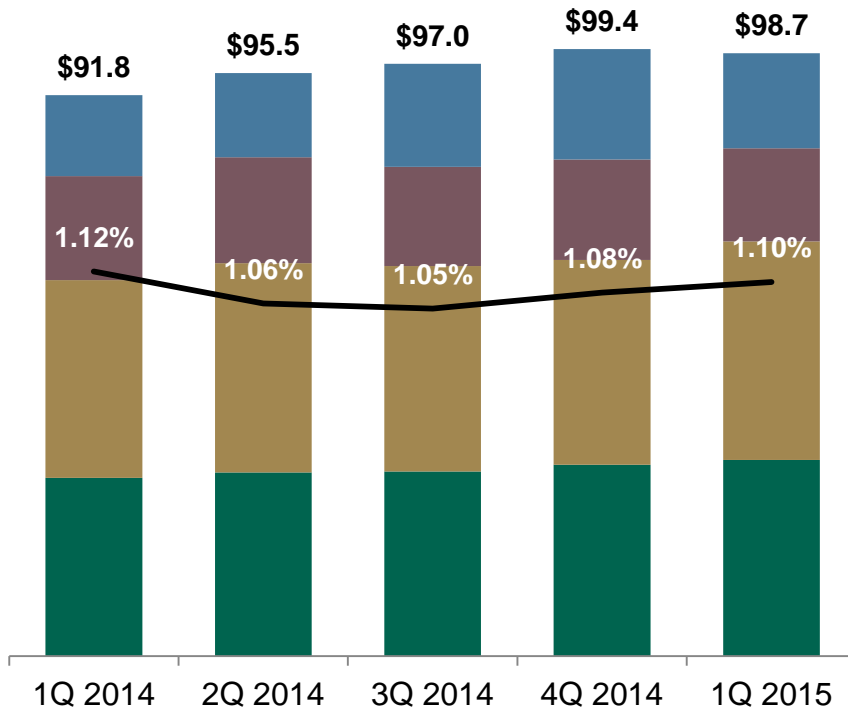
- New business and higher equity markets increased client assets and fees but were partially offset by the impact of a stronger dollar
- Money market fee waivers totaled \$15.2 million in C&IS and \$17.7 million in Wealth Management in the current quarter





# Net Interest Income

## Average Earning Assets (\$ in billions)



- Average client deposits were up 7% versus 1Q 2014
- The mix of earning assets shifted toward securities and loans
  - ◆ Loans and leases were up 10% on average versus the prior year
- Net Interest Margin increased to 1.10% from 1.08% in the prior quarter, but remained lower than one year ago

NII (FTE <sup>1</sup> )	1Q 2014	2Q 2014	3Q 2014	4Q 2014	1Q 2015
in millions	\$254.4	\$253.4	\$256.2	\$270.9	\$266.8

- Loans & Leases
- Securities
- Deposits w/ Banks
- Fed Deposits & Other

— NIM (FTE<sup>1</sup>)

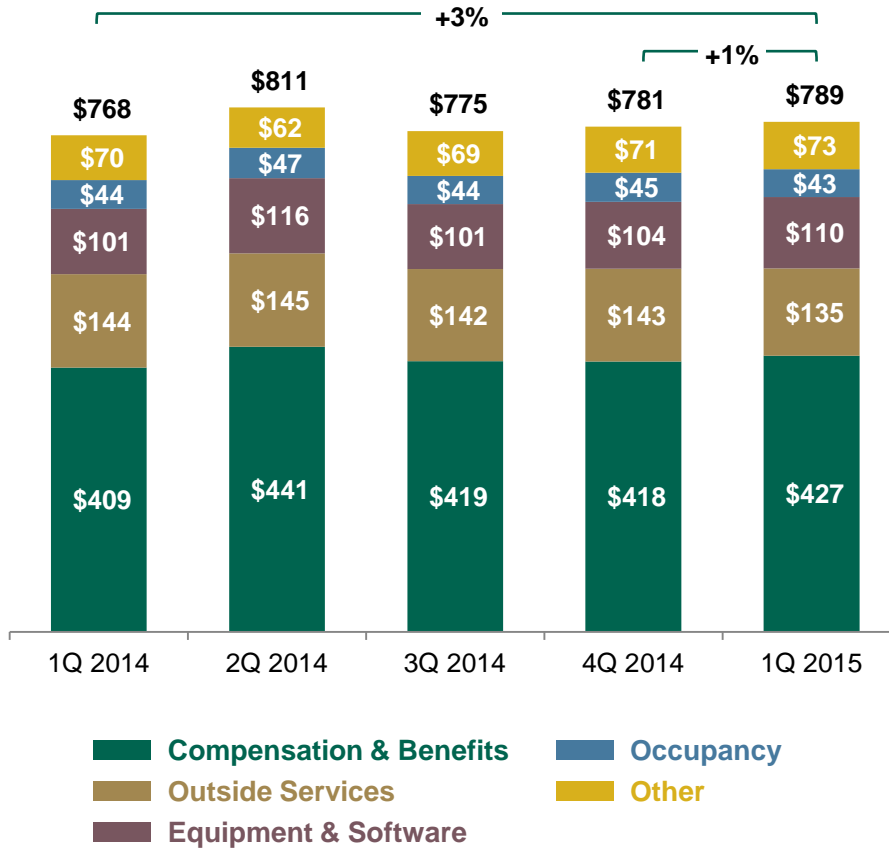
<sup>1</sup> Net interest income and net interest margin stated on an FTE basis are non-GAAP financial measures. A reconciliation of these measures to reported results prepared in accordance with U.S. GAAP is included in the Appendix on page 11.



# Noninterest Expense

\$ in millions

## Total Noninterest Expense

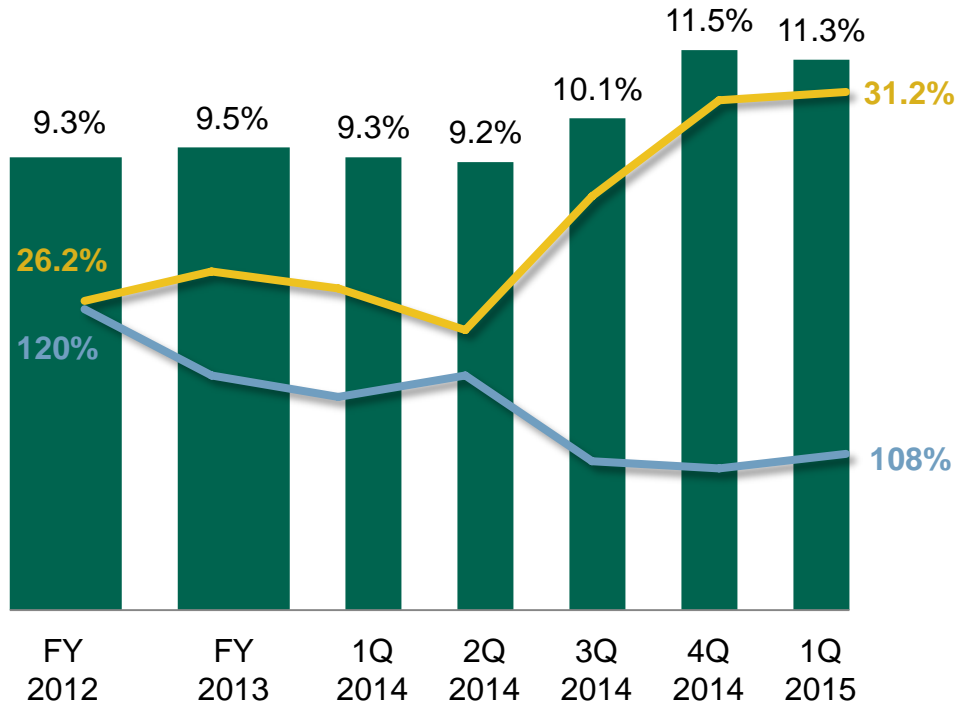


- Compensation & Benefits increased 5% year-over-year and 2% sequentially
- ◆ Growth in salaries and incentives were partially offset by the impact of a stronger dollar
- ◆ Pension expense was \$4 million higher versus the prior year and \$5 million higher sequentially
- Outside Services expense was 6% lower than both last year and last quarter
- Equipment & Software expense was 9% higher than the prior year and 7% higher than the prior quarter

Categories may not sum due to rounding.



## Return on Equity



- We remain focused on sustainably improving profitability and returns
- Ratio of expenses to trust & investment fees and pre-tax margin improved year-over-year
- We achieved a return on equity of 11.3%, within our target range of 10% - 15% and higher than 9.3% in 1Q 2014

— Pre-tax Margin (FTE<sup>1</sup>)  
 — Noninterest Expense as a % of Trust & Investment Fees

<sup>1</sup> Pre-tax margin stated on an FTE basis is a non-GAAP financial measure. A reconciliation to reported results prepared in accordance with U.S. GAAP is included in the Appendix on page 11.





## Northern Trust Corporation Capital Ratios

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### *Advanced Approach*

Common Equity Tier 1	11.8%
Tier 1	12.4%
Total	14.2%
Supplementary Leverage	6.4%

### *Standardized Approach*

Common Equity Tier 1	10.5%
Tier 1	11.1%
Total	13.1%
Leverage	7.8%

## Capital Return

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- Declared \$79 million in common stock dividends and repurchased \$107 million of common stock in 1Q 2015
- The Federal Reserve did not object to Northern Trust's 2015 capital plan, including:
  - ◆ a planned increase in our dividend to \$0.36 per share, and
  - ◆ the repurchase of up to \$675 million of common stock through June 2016

As of March 31, 2015. Capital ratios are considered preliminary until the Form 10-Q is filed with the Securities and Exchange Commission.





# *Appendix*

# Reconciliation of Non-GAAP Financial Measures

The following table presents a reconciliation of interest income and net interest income prepared in accordance with GAAP to interest income and net interest income on a fully taxable equivalent (FTE) basis, a non-GAAP financial measure.

Management believes this presentation provides a clearer indication of net interest income and margins for comparative purposes.

(\$ In Millions)	Three Months Ended								
	March 31, 2015			December 31, 2014			March 31, 2014		
	Reported	FTE Adj.	FTE	Reported	FTE Adj.	FTE	Reported	FTE Adj.	FTE
<b>Net Interest Income</b>									
Interest Income	\$ 298.8	\$ 6.2	\$ 305.0	\$ 303.9	\$ 7.0	\$ 310.9	\$ 295.4	\$ 8.7	\$ 304.1
Interest Expense	38.2	–	38.2	40.0	–	40.0	49.7	–	49.7
Net Interest Income	\$ 260.6	\$ 6.2	\$ 266.8	\$ 263.9	\$ 7.0	\$ 270.9	\$ 245.7	\$ 8.7	\$ 254.4
Net Interest Margin	1.07%		1.10%	1.05%		1.08%	1.09%		1.12%



# Forward Looking Statement

This presentation may include forward-looking statements concerning Northern Trust's financial results and outlook, capital adequacy, dividend policy, anticipated expense levels and technology spending, risk management policies, contingent liabilities, strategic initiatives, industry trends, and expectations regarding the impact of recent legislation. Forward-looking statements are typically identified by words or phrases such as "believe", "expect", "anticipate", "intend", "estimate", "project", "likely", "may increase", "plan", "goal", "target", "strategy", and similar expressions or future or conditional verbs such as "may", "will", "should", "would", and "could". Forward-looking statements are Northern Trust's current estimates or expectations of future events or future results, and involve risks and uncertainties that are difficult to predict. These statements are based on assumptions about many important factors, including the factors discussed in Northern Trust's most recent annual report on Form 10-K and other filings with the U.S. Securities and Exchange Commission, all of which are available on Northern Trust's website.

We caution you not to place undue reliance on any forward-looking statement as actual results may differ materially from those expressed or implied by forward-looking statements. Northern Trust assumes no obligation to update its forward-looking statements.

