

Northern Trust Corporation

Market Risk Disclosures

December 31, 2014



Northern Trust

Market Risk Disclosures

Effective January 1, 2013, Northern Trust Corporation (Northern Trust) adopted revised risk based capital guidelines for market risk commonly referred to as Basel II.5 (the Market Risk Rule), issued jointly by the Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation. The Market Risk Rule requires Northern Trust to publicly disclose, for each material portfolio of covered positions, certain quantitative and qualitative information. Quantitative disclosures include period-end Value at Risk (VaR) based measures and Stressed VaR (SVaR) based measures.

Qualitative disclosures include the composition of material covered portfolios, Northern Trust's valuation policies, procedures, and methodologies, and the characteristics of the internal models in use. All information provided below is at a consolidated Northern Trust level.

Foreign Exchange Trading Activities

Positions covered under market risk regulations arise from Northern Trust's foreign exchange (FX) trading, which consist principally of providing FX services to clients. Most of those services are provided in connection with Northern Trust's global custody business. The primary market risk associated with global FX trading activities is FX risk.

Foreign currency trading positions exist when aggregate obligations to purchase and sell a currency other than the U.S. dollar either do not offset each other fully in amount or offset each other over different time periods.

The FX trading portfolio at Northern Trust is comprised of spot, forward, and non-deliverable forward currency transactions. The portfolio holds no futures, options, or structured derivatives. As of December 31, 2014, approximately 99% of FX contracts were to mature in less than 12 months and the average maturity of outstanding contracts was approximately 56 days.

Northern Trust trades in 55 different currencies. In response to changes in liquidity, client demand, and the economic, political and regulatory environment of each currency's domicile, currencies may be dropped from or added to the tradable list and position limits may be revised.

Other Nonmaterial Trading Activities

Market risk associated with other trading activities is negligible. Northern Trust's broker-dealer, Northern Trust Securities Inc. (NTSI), maintains a small portfolio of trading securities held for customer accommodation purposes which averaged \$5.4 million for the quarter ended December 31, 2014.

Northern Trust is also party to interest rate derivative (IRD) contracts consisting mostly of interest rate swaps entered into to meet clients' interest rate risk management needs, but also including a small number of caps, floors, and swaptions. All IRD transactions are executed by Northern Trust's Treasury Department. When Northern Trust enters into client transactions, its

practice is to mitigate the resulting market risk with offsetting interbank derivative transactions with matching terms and maturities.

Valuation Practices

Values of FX spot and forward positions and of securities held by NTSI are updated directly from observable market prices. For IRDs, Northern Trust updates interest rates daily through automated data feeds from established data vendors. Rates and prices are fed into standard pricing models to determine valuations of positions.

Value at Risk and Required Capital

The table below presents levels of VaR and the VaR component of required capital for FX, for the quarter ended December 31, 2014. VaR is shown at the 99% confidence level, at a one-day horizon, and with volatilities equally weighted over a one-year look-back period.

(in millions)	VaR, 99% 1-day	VaR Component of Required Capital
High	\$0.5	\$2.2
Low	\$ -	\$1.4
Average	\$0.2	\$1.9
Quarter End	\$0.2	\$1.4

Stressed Value at Risk Measures

The table below presents levels of SVaR for FX-based on the same assumptions and inputs as above but replaying the severe one-year financial crisis period of August 2008 to August 2009.

(in millions)	SVaR, 99% 1-day	SVaR Component of Required Capital
High	\$2.2	\$13.6
Low	\$0.4	\$ 9.1
Average	\$1.0	\$11.6
Quarter End	\$1.0	\$ 9.1

The VaR and SVaR totals indicate the degree of risk inherent in non-U.S. currency positions during the most recent quarters; however, they are not predictive of expected gain or loss. Actual future gains or losses are dependent on market conditions and the amounts and tenors of future non-U.S. currency positions.

Comparison with Actual Outcomes

During the quarter ended December 31, 2014, Northern Trust did not incur an actual trading loss in excess of the daily VaR estimate. In addition to comparing actual gains or losses to VaR, Northern Trust also compares hypothetical gains or losses to VaR. Hypothetical gains or losses are computed by assuming the previous day's closing positions remain unchanged for the entire following day, updating market prices, and recomputing the portfolio's valuation. During the quarter ended December 31, 2014, Northern Trust experienced three days for which the computed hypothetical loss would have been greater than indicated by the VaR-based estimate at the 99% confidence level.

Characteristics of Value at Risk Models

FX VaR Modeling. As part of its risk management activities, Northern Trust measures daily the risk of loss associated with all non-U.S. currency positions using a VaR model and applying the historical simulation methodology. This statistical model provides estimates, based on a variety of high confidence levels, of the potential loss in value that might be incurred if an adverse shift in non-U.S. currency exchange rates were to occur over a small number of days. The model incorporates FX and interest rate price movements among the currencies based on daily historical data over at least the past year.

The FX VaR measures are computed in a vended software application which reads FX positions directly from Northern Trust's trading systems each day. Data vendors provide FX rates and interest rates for all currencies. The Corporate Market Risk unit monitors on a daily basis VaR model inputs and outputs for reasonableness.

VaR Variations. Management monitors several variations of the FX VaR measures to meet specific regulatory and internal management needs. Variations include different methodologies (historical, variance-covariance, and Monte Carlo), equally-weighted and exponentially-weighted volatilities, horizons of one day and ten days, confidence levels ranging from 95% to 99.95%, and look-back periods of one year and four years. Those alternative measures provide management a rich array of alternative risk metrics, offering corroborating measures and useful perspectives on Northern Trust's market risks.

VaR Reporting. Automated daily reports are produced and distributed to business unit managers and risk managers. The Corporate Market Risk unit also reviews and reports several variations of the VaR measures in historical time series format to provide management with an historical perspective on risk.

Model Risk Management

Financial and risk modeling are used by Northern Trust to inform numerous decisions regarding risk management, as well as capital estimation, financial reporting and disclosure, valuation and pricing, and portfolio management. Model risk may result from decisions based on models that produce incorrect results or models that are improperly used. Model Risk Management is responsible for independently validating new models and reviewing and re-validating existing

models. Validations are documented and include an assessment of the conceptual soundness of the modeling approach, outcomes analysis, applicability of use, model assumptions and limitations, development documentation, ongoing monitoring, and model controls. Oversight of Model Risk Management is provided by the Operational Risk Committee as Northern Trust considers model risk to be an operational risk.

Description of Stress Tests

Management monitors stress test results on an ongoing basis to assess the potential for exceeding Northern Trust's base economic capital value described below. Should the results of a stress test exceed the base economic capital value, Northern Trust management would consider that information in assessing its capital adequacy.

Northern Trust runs a battery of stress tests on the FX portfolio, including quadrupling volatility, measuring at an extreme number of standard deviations (six sigmas), stressing correlations to extremes, taking tail averages (conditional VaR or expected shortfall), zero diversification benefit, and zero correlation between spot and forward risks. Northern Trust runs daily a stressed VaR, which replays the severe one-year financial crisis period of August 2008 to August 2009. In assessing capital adequacy, management considers in particular the results of stress tests run weekly that reenact eight of the most severe historical events over a simulated ten-day period.

Soundness Standard and Capital Adequacy

Regulatory capital adequacy is assessed at the 99% confidence level and ten-day horizon per regulatory requirements. Northern Trust's soundness standard for base economic capital is the 99.95% confidence level and two-month horizon. Because the VaR methodology applied for economic capital is variance-covariance, scaling to horizon and confidence level is achieved via standard parametric scaling. Capital adequacy assessment also considers risks that may not be captured fully in the VaR-based measure, such as concentration and liquidity risk under stressed market conditions.

Forward-Looking Statements

This document may include forward-looking statements such as statements concerning Northern Trust's financial goals, capital adequacy, dividend policy, risk management policies, litigation-related matters and contingent liabilities, accounting estimates and assumptions, industry trends, strategic initiatives, credit quality including allowance levels, planned capital expenditures and technology spending, anticipated expense levels, future pension plan contributions, anticipated tax benefits and expenses, the impact of recent legislation and accounting pronouncements, and all other statements that do not relate to historical facts. 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. All forward-looking statements included in this document are based upon information presently available, and Northern Trust assumes no obligation to update its forward-looking statements.