

PRINCIPLES THAT ENDURE



Northern Trust Corporation

Second Quarter 2014

Quarterly Earnings Review

July 16, 2014



Northern Trust

northerntrust.com



Executive Summary

- Net income of \$181.9 million, earnings per common share of \$.75
- Reported results included charges and write-offs totaling \$42.3 million (\$.12 per share). Excluding these charges and write-offs:
 - ◆ Net Income and earnings per common share would have been \$209.8 million and \$0.87, respectively
 - ◆ Return on equity would have been 10.6%
- The operating environment was mixed:
 - ◆ Equity markets are higher
 - ◆ Currency volatility was lower
 - ◆ Short-term interest rates remained very low
- Assets under custody and under management increased 20% and 15%, respectively, over last year and 4% and 1%, respectively, over last quarter





Summary Results & Key Metrics

\$ in millions (except EPS and as noted)

	2Q 2014	% Change Vs.	
		<u>2Q 2013</u>	<u>1Q 2014</u>
Revenue (FTE ^{1,2})	\$1,088.5	+6%	+4%
Noninterest Expense	811.0	+11%	+6%
Provision for Credit Losses	-	-100%	-100%
Net Income	\$181.9	-5%	-
Earnings per Share	\$0.75	-4%	-
Return on Equity ³	9.2%	10.0%	9.3%
Assets under Custody (<i>in billions</i>)	\$6,005	+20%	+4%
Global Custody Assets (<i>in billions</i>)	\$3,552	+27%	+5%
Assets under Management (<i>in billions</i>)	\$924	+15%	+1%

¹ 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 12.

² Fully taxable equivalent

³ Actual numbers for all periods, not % change.

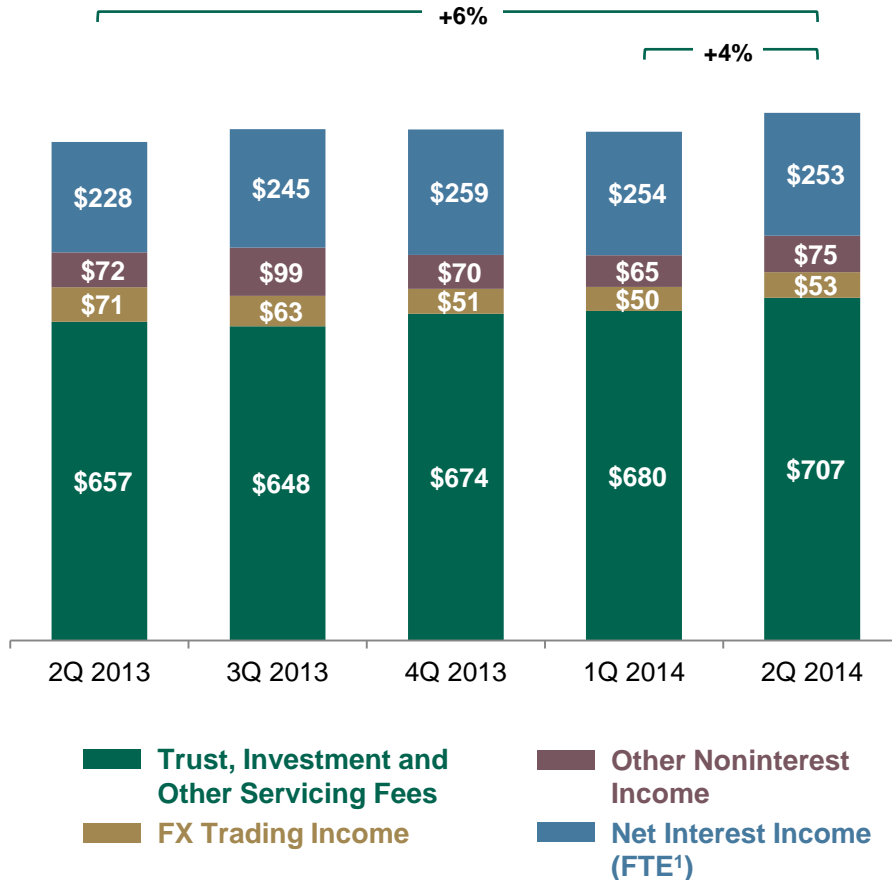




Total Revenue

\$ in millions

Total Revenue (FTE¹)



- Trust, Investment and Other Servicing Fees were up 8% year-over-year and 4% sequentially due to favorable equity markets and new business
- Foreign Exchange Trading Income decreased 26% from the prior year but was up 5% versus the first quarter
- Other Noninterest Income was up 5% versus the prior year and 15% sequentially
- Net Interest Income (FTE¹) was up 11% from the prior year but down slightly versus the prior quarter

Categories may not sum due to rounding.

¹ 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 12.





Trust, Investment & Other Servicing Fees

\$ in millions (except as noted)

<u>Trust, Investment & Other Servicing Fees</u>	2Q 2014	% Change Vs.	
		<u>2Q 2013</u>	<u>1Q 2014</u>
Custody & Fund Administration	\$261.1	+11%	+4%
Investment Management	77.7	+5%	+4%
Securities Lending	30.0	-4%	+32%
Other	26.6	+7%	-9%
<i>Total Corporate & Institutional Services</i>	\$395.4	+9%	+4%
<i>Total Wealth Management</i>	\$311.5	+6%	+4%
<i>Client assets (in billions):</i>			
C&IS AUC	\$5,488	+21%	+5%
Global Custody Assets	\$3,552	+27%	+5%
C&IS AUM	\$702	+17%	-
Securities Lending Collateral	\$116	+19%	-
Wealth Management AUC	\$517	+14%	+3%
Wealth Management AUM	\$223	+10%	+3%

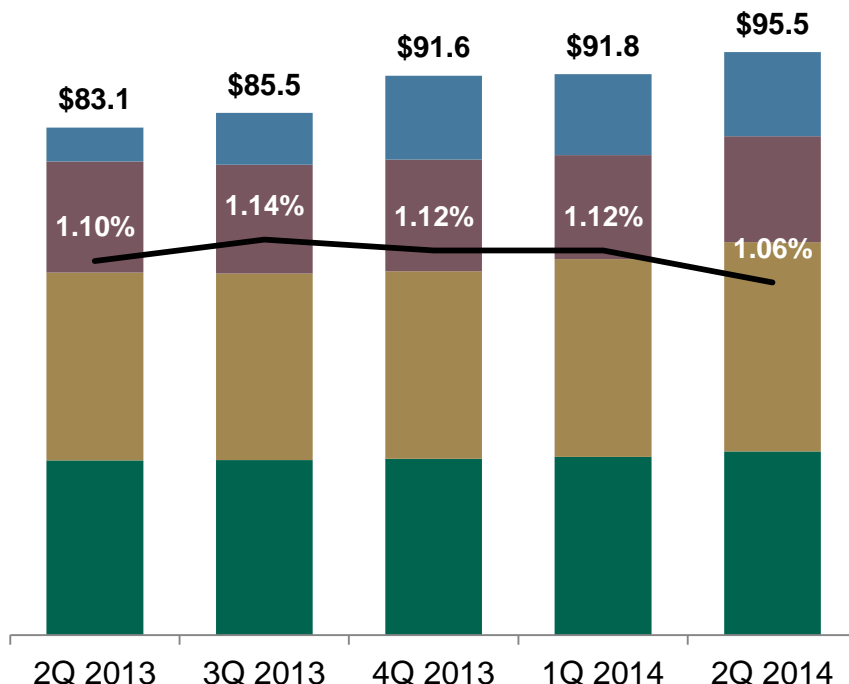
- Money market fee waivers were higher than the prior year but lower than prior quarter
 - ◆ C&IS fee waivers totaled \$14.8 million in the current quarter
 - ◆ Wealth Management fee waivers totaled \$15.9 million
- Higher equity markets, favorable movement in foreign currency rates, and new business increased client assets
- Securities Lending fees increased 32% sequentially due to the international dividend season





Net Interest Income

Average Earning Assets (\$ in billions)



- Average client interest-bearing deposit were up 18% relative to 2Q 2013 and 4% versus 1Q 2014
- ◆ This higher level of funding was primarily invested in Federal Reserve Deposits and Securities
- Net Interest Margin narrowed to 1.06% from 1.10% a year ago and 1.12% in the prior quarter

NII (FTE ¹)	2Q 2013	3Q 2013	4Q 2013	1Q 2014	2Q 2014
in millions	\$228.0	\$244.8	\$259.1	\$254.4	\$253.4



¹ 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 12.

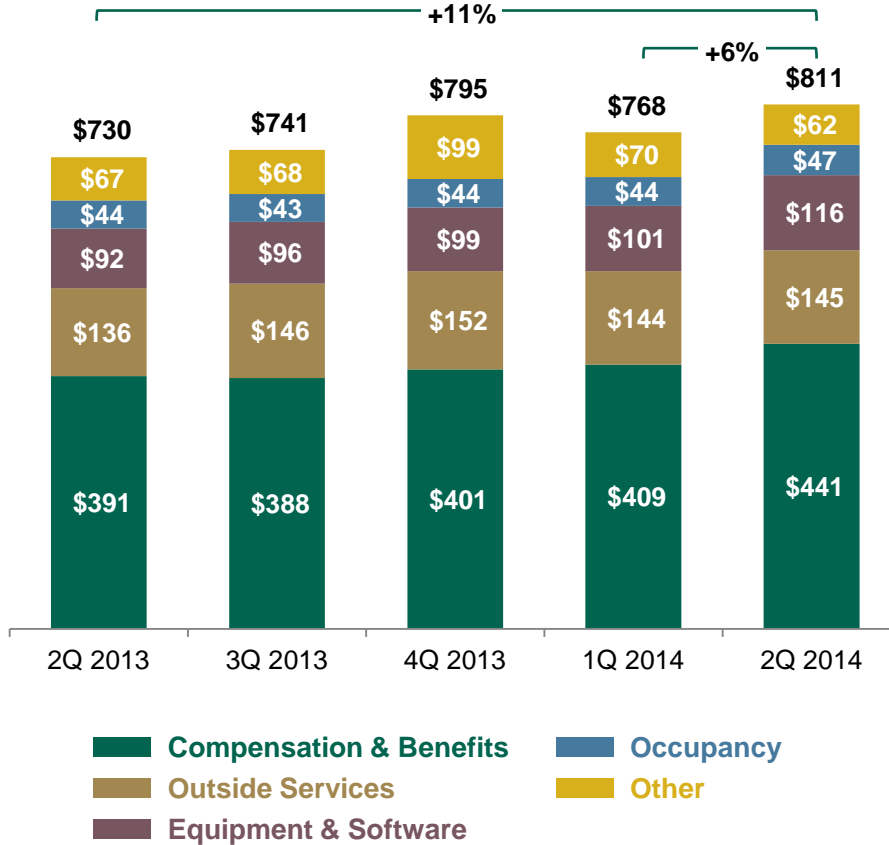




Noninterest Expense

\$ in millions

Total Noninterest Expense



- Noninterest Expenses included the following items in 2Q 2014:
 - ◆ Severance-related charges of \$28.5 million
 - ◆ \$4.3 million in charges related to reductions in office space
 - ◆ Software write-offs totaling \$9.5 million

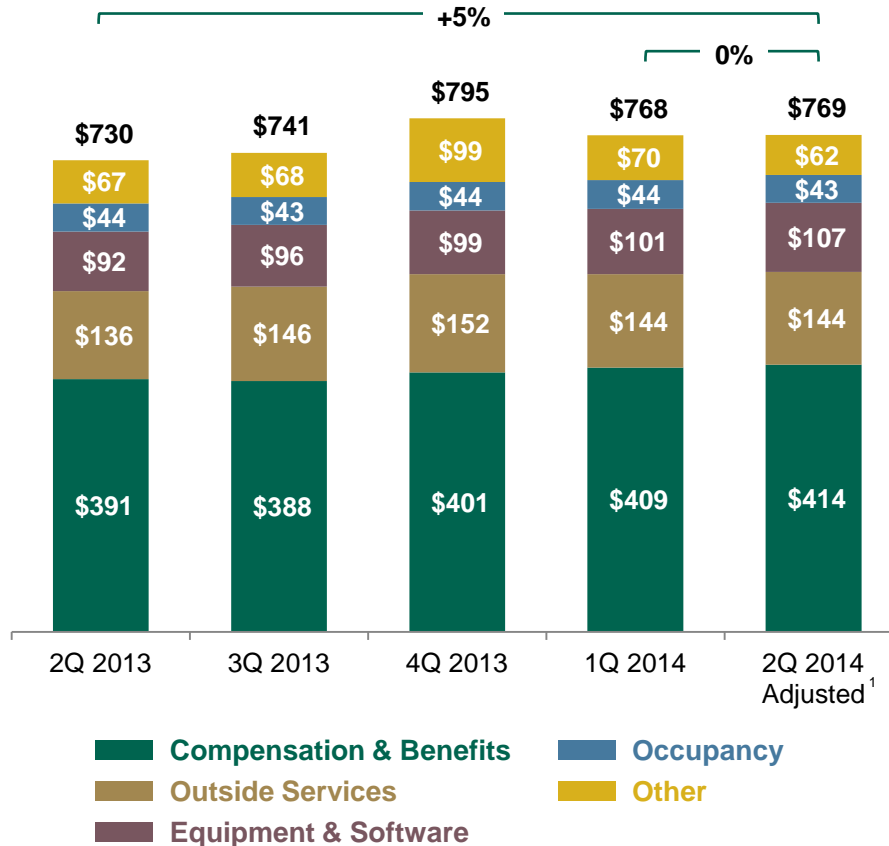
Categories may not sum due to rounding.



Adjusted¹ Noninterest Expense

\$ in millions

Total Noninterest Expense



Adjusted for the \$42.3 million in charges and write-offs recorded in 2Q 2014:

- Compensation & Benefits increased 6% year-over-year and 1% versus the prior quarter, reflecting staff growth, base pay adjustments, and the unfavorable impact of movements in foreign currency rates
- Outside Services expense was 5% higher than last year but 1% lower than the prior quarter
- Equipment & Software expense was 16% higher than the prior year and 5% higher than the prior quarter, reflecting continued investment in technology
- Occupancy costs were down 1% versus the prior year and 3% versus the prior quarter
- Other Operating Expense decreased 7% year-over-year 11% sequentially

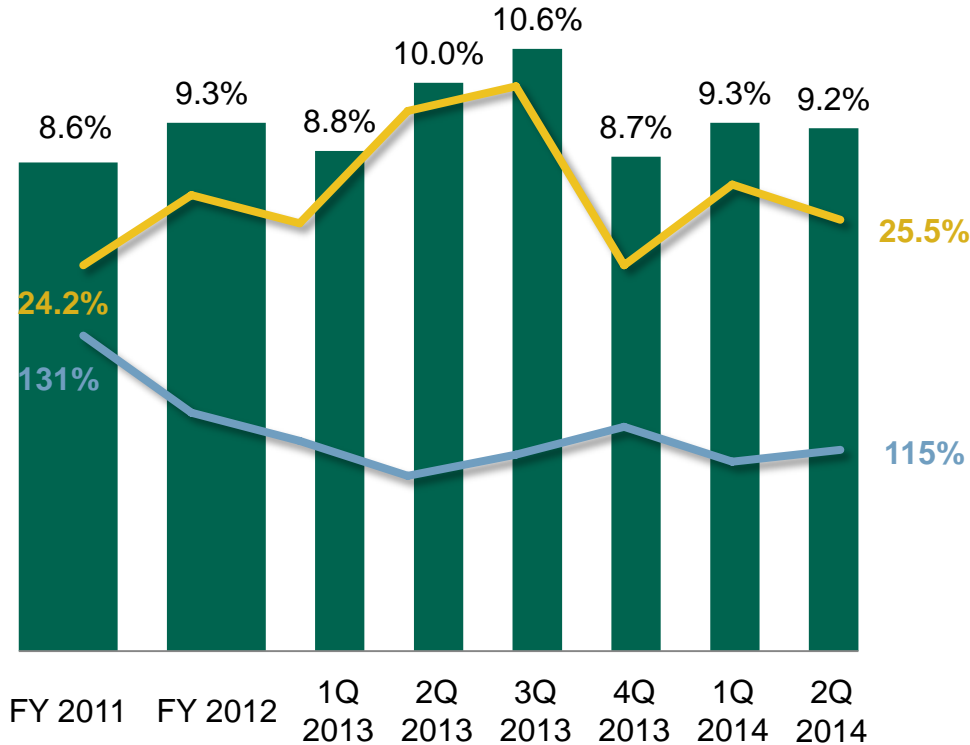
¹ Adjusted noninterest expenses are non-GAAP financial measures that exclude charges and write-offs. A reconciliation of these measures to reported results prepared in accordance with U.S. GAAP is included in the Appendix on page 13.

Categories may not sum due to rounding.





Return on Equity



- Focus on enhancing productivity and efficiency has improved profitability and returns over time
- Ratio of expenses to trust & investment fees has declined since 2011
- Return on equity would have been 10.6% excluding the charges and write-offs taken in the quarter

— Pre-tax Margin (FTE¹)
 — Noninterest Expense as a % of Trust & Investment Fees

¹ 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 12.



Northern Trust Corporation Capital Ratios

Advanced Approach¹

Common Equity Tier 1	12.7%
Tier 1	12.9%
Total	14.9%

Standardized Approach²

Common Equity Tier 1	12.7%
Tier 1	12.9%
Total	15.4%
Leverage	7.6%

Capital Return

- Declared \$79 million in dividends and repurchased \$75 million of our common stock in 2Q 2014
- Remaining capacity to repurchase up to \$350 million of common stock through 1Q 2015 under our 2014 Capital Plan that was reviewed without objection by the Federal Reserve

As of June 30, 2014.

¹ Effective with the second quarter of 2014, Northern Trust exited its parallel run. Accordingly, the June 30, 2014 ratios are calculated in compliance with the Basel III Advanced Approach final rules released by the Board of Governors of the Federal Reserve on July 2, 2013.

² Standardized Approach capital components in 2014 are determined by Basel III phased in requirements and risk weighted assets are determined by Basel I requirements. The ratios calculated under the Standardized Approach comply with the final rules released by the Board of Governors of the Federal Reserve on July 2, 2013.



PRINCIPLES THAT ENDURE

Service

Expertise

Integrity

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								
	June 30, 2014			March 31, 2014			June 30, 2013		
	Reported	FTE Adj.	FTE	Reported	FTE Adj.	FTE	Reported	FTE Adj.	FTE
Net Interest Income									
Interest Income	\$ 293.8	\$ 6.8	\$ 300.6	\$ 295.4	\$ 8.7	\$ 304.1	\$ 275.3	\$ 7.9	\$ 283.2
Interest Expense	47.2	–	47.2	49.7	–	49.7	55.2	–	55.2
Net Interest Income	\$ 246.6	\$ 6.8	\$ 253.4	\$ 245.7	\$ 8.7	\$ 254.4	\$ 220.1	\$ 7.9	\$ 228.0
Net Interest Margin	1.04%		1.06%	1.09%		1.12%	1.06%		1.10%
Total Revenue	\$ 1,081.7	\$ 6.8	\$ 1,088.5	\$ 1,040.5	\$ 8.7	\$ 1,049.2	\$ 1,020.5	\$ 7.9	\$ 1,028.4



Reconciliation of Non-GAAP Financial Measures

The following table provides a reconciliation of adjusted expenses, which exclude charges and write-offs, to expenses calculated in accordance with GAAP. Management believes the presentation of adjusted expenses in addition to reported expenses prepared in accordance with GAAP provides a clearer indication of the results and trends in Northern Trust's core businesses

(\$ In Millions)	Second Quarter 2014		
	Reported	Adjustments	Adjusted
Compensation	\$ 372.4	\$ -25.5 ¹	\$ 346.9
Employee Benefits	68.5	-1.9 ¹	66.6
Outside Services	144.6	-1.1 ¹	143.5
Equipment and Software Expense	116.1	-9.5 ²	106.6
Occupancy Expense	47.2	-4.3 ³	42.9
Other Operating Expense	62.2	-	62.2
Total	\$ 811.0	\$ -42.3	\$ 768.7

¹ Adjusted results exclude severance-related charges of \$28.5 million.

² Adjusted results exclude \$9.5 million of write-offs of software no longer in use.

³ Adjusted results exclude \$4.3 million of charges in connection with reductions in office space.



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.

