

NORTHERN TRUST CORP  
Form 10-Q  
October 31, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended September 30, 2014**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 0-5965**

**NORTHERN TRUST CORPORATION**  
**(Exact name of registrant as specified in its charter)**

Delaware  
(State or other jurisdiction of  
incorporation or organization)

36-2723087  
(I.R.S. Employer  
Identification No.)

50 South LaSalle Street

Chicago, Illinois  
(Address of principal executive offices)

60603  
(Zip Code)

Registrant's telephone number, including area code: (312) 630-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and small reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

235,505,008 Shares \$1.66 2/3 Par Value

(Shares of Common Stock Outstanding on September 30, 2014)

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**NORTHERN TRUST CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014**  
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<b>CONDENSED INCOME STATEMENT (In Millions)</b>	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change (*)	2014	2013	% Change
Noninterest Income	\$ 829.6	\$ 810.2	2%	\$ 2,459.5	\$ 2,360.9	4%
Net Interest Income	249.3	237.0	5	741.6	683.2	9
Provision for Credit Losses		5.0	(100)	3.0	15.0	(80)
Noninterest Expense	774.7	740.7	5	2,353.7	2,199.3	7
<b>Income before Income Taxes</b>	<b>304.2</b>	<b>301.5</b>	<b>1</b>	<b>844.4</b>	<b>829.8</b>	<b>2</b>
Provision for Income Taxes	99.7	95.0	5	276.6	268.2	3
<b>Net Income</b>	<b>\$ 204.5</b>	<b>\$ 206.5</b>	<b>(1)%</b>	<b>\$ 567.8</b>	<b>\$ 561.6</b>	<b>1%</b>

**PER COMMON SHARE**

Net Income Basic	\$ 0.85	\$ 0.85	%	\$ 2.36	\$ 2.31	2%
Diluted	0.84	0.84		2.34	2.29	2
Cash Dividends Declared Per Common Share	0.33	0.31	6	0.97	0.92	5
Book Value End of Period (EOP)	34.62	32.71	6	34.62	32.71	6
Market Price EOP	68.03	54.38	25	68.03	54.38	25

**SELECTED BALANCE SHEET DATA (In Millions)**

	September 30, December 31,		% Change (*)
	2014	2013	
<b>End of Period:</b>			
Assets	\$ 111,153.7	\$ 102,947.3	8%
Earning Assets	101,133.8	93,367.2	8
Deposits	91,722.5	84,098.1	9
Stockholders Equity	8,542.6	7,912.0	8

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change (*)	2014	2013	% Change (*)
<b>Average Balances:</b>						
Assets	\$ 105,244.7	\$ 95,212.5	11%	\$ 102,955.8	\$ 93,223.5	10%
Earning Assets	96,967.5	85,529.1	13	94,773.8	83,615.3	13
Deposits	85,717.2	75,454.4	14	83,721.6	74,069.2	13
Stockholders Equity	8,285.5	7,697.8	8	8,054.3	7,630.3	6

**SELECTED RATIOS AND METRICS**

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change (*)	2014	2013	% Change (*)
<i>Financial Ratios:</i>						
Return on Average Common Equity	<b>10.09%</b>	10.64%	(5)%	<b>9.52%</b>	9.84%	(3)%
Return on Average Assets	<b>0.77</b>	0.86	(10)	<b>0.74</b>	0.81	(9)
Dividend Payout Ratio	<b>39.3</b>	36.9	6	<b>41.5</b>	40.2	3
Net Interest Margin (**)	<b>1.05</b>	1.14	(8)	<b>1.08</b>	1.13	(4)

	September 30, 2014		June 30, 2014		December 31, 2013 (c)
	Advanced Approach (a)	Standardized Approach (b)	Advanced Approach (a)	Standardized Approach (b)	
<i>Capital Ratios:</i>					
<b>Northern Trust Corporation</b>					
Common Equity Tier 1	<b>12.7%</b>	<b>12.8%</b>	12.7%	12.7%	12.9%
Tier 1	<b>13.4</b>	<b>13.6</b>	12.9	12.9	13.4
Total	<b>15.3</b>	<b>16.0</b>	14.9	15.4	15.8
Leverage	<b>n/a</b>	<b>7.9</b>	n/a	7.6	7.9
<b>The Northern Trust Company</b>					
Common Equity Tier 1	<b>11.7%</b>	<b>11.6%</b>	11.7%	11.4%	11.5%
Tier 1	<b>11.7</b>	<b>11.6</b>	11.6	11.4	11.5
Total	<b>13.7</b>	<b>14.0</b>	13.7	14.0	14.3
Leverage	<b>n/a</b>	<b>6.8</b>	n/a	6.7	6.8

<b>CLIENT ASSETS (In Billions)</b>			% Change (*)
	September 30, 2014	December 31, 2013	
Assets Under Custody	<b>\$ 5,910.3</b>	\$ 5,575.7	6%
Assets Under Management	<b>923.3</b>	884.5	4

(\*) Percentage calculations are based on actual balances rather than the rounded amounts presented in the Consolidated Financial Highlights.

(\*\*) Net interest margin is presented on a fully taxable equivalent basis (FTE).

(a) Effective with the second quarter of 2014, Northern Trust exited its parallel run. Accordingly, the September 30, 2014, and 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.

(b) 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 September 30, 2014, and June 30, 2014, 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.

(c) The December 31, 2013 ratios are calculated in accordance with Basel I requirements.

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**PART I FINANCIAL INFORMATION**

**ITEMS 2. AND 3. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**THIRD QUARTER CONSOLIDATED RESULTS OF OPERATIONS**

**General**

Northern Trust Corporation (the Corporation), together with its subsidiaries, is a leading provider of asset servicing, fund administration, asset management, fiduciary and banking solutions for corporations, institutions, families, and individuals worldwide. Northern Trust focuses on servicing and managing client assets through its two primary business units, Wealth Management (WM) and Corporate & Institutional Services (C&IS). Asset management and related services are provided to Wealth Management and C&IS clients primarily by a third business unit, Asset Management. The Corporation conducts business through various U.S. and non-U.S. subsidiaries, including through its principal subsidiary, The Northern Trust Company. Except where the context otherwise requires, the term Northern Trust refers to Northern Trust Corporation and its subsidiaries on a consolidated basis.

The following should be read in conjunction with the consolidated financial statements and related footnotes included in this report. Investors should also read the section entitled Forward-Looking Statements.

**Overview**

Net income per diluted common share in the current quarter was \$0.84, consistent with \$0.84 in the third quarter of 2013. Net income was \$204.5 million as compared to \$206.5 million in the prior year quarter. The performance in the current quarter produced an annualized return on average common equity of 10.1% as compared to 10.6% in the prior year quarter. The annualized return on average assets was 0.8% as compared to 0.9% in the prior year quarter.

The prior year quarter included a \$32.6 million pre-tax gain (\$20.3 million after tax, or \$0.08 per common share) on the sale of an office building property. Excluding this gain, net income per diluted common share, net income, and return on average common equity in the prior year quarter were \$0.76, \$186.2 million, and 9.6%, respectively.

Revenue of \$1.08 billion was up \$31.7 million, or 3%, from \$1.05 billion in the prior year quarter. Noninterest income increased \$19.4 million, or 2%, to \$829.6 million from the prior year quarter's \$810.2 million. Excluding the prior year quarter gain on the sale of an office building property, noninterest income increased \$52.0 million, or 7%, reflecting higher trust, investment and other servicing fees, partially offset by lower foreign exchange trading income as compared to the prior year quarter.

Net interest income increased \$12.3 million, or 5%, to \$249.3 million as compared to \$237.0 million in the prior year quarter, due to higher levels of average earning assets, partially offset by a decrease in the net interest margin.

Noninterest expense totaled \$774.7 million, up \$34.0 million, or 5%, from \$740.7 million in the prior year quarter, primarily reflecting higher compensation, employee benefits and equipment and software expense.

Table of Contents**THIRD QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)****Noninterest Income**

The components of noninterest income are provided below.

Noninterest Income (\$ In Millions)	Three Months Ended September 30,			
	2014	2013	Change	
Trust, Investment and Other Servicing Fees	\$ 718.2	\$ 648.0	\$ 70.2	11%
Foreign Exchange Trading Income	46.4	62.8	(16.4)	(26)
Treasury Management Fees	16.4	17.6	(1.2)	(7)
Security Commissions and Trading Income	14.2	16.8	(2.6)	(16)
Other Operating Income	34.1	67.2	(33.1)	(49)
Investment Security Gains (Losses), net	0.3	(2.2)	2.5	N/M
<b>Total Noninterest Income</b>	<b>\$ 829.6</b>	<b>\$ 810.2</b>	<b>\$ 19.4</b>	<b>2%</b>

Trust, investment and other servicing fees are based generally on the market value of assets held in custody, managed and serviced; the volume of transactions; securities lending volume and spreads; and fees for other services rendered. Certain market value calculations on which fees are based are performed on a monthly or quarterly basis and can be based on the beginning, ending or daily average value of the client portfolio.

The following tables present Northern Trust's assets under custody and assets under management by business segment.

Assets Under Custody

(\$ In Billions)	September 30,	June 30,	September 30,	Change	Change
	2014	2014	2013	Q3-14/ Q2-14	Q3-14/ Q3-13
Corporate & Institutional	\$ 5,403.1	\$ 5,488.0	\$ 4,766.5	(2)%	13%
Wealth Management	507.2	516.6	470.5	(2)	8
<b>Total Assets Under Custody</b>	<b>\$ 5,910.3</b>	<b>\$ 6,004.6</b>	<b>\$ 5,237.0</b>	<b>(2)%</b>	<b>13%</b>

Assets Under Management

(\$ In Billions)	September 30,	June 30,	September 30,	Change	Change
	2014	2014	2013	Q3-14/ Q2-14	Q3-14/ Q3-13
Corporate & Institutional	\$ 702.9	\$ 701.5	\$ 634.6	%	11%



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Wealth Management	<b>220.4</b>	222.9	211.6	(1)	4
<b>Total Assets Under Management</b>	<b>\$ 923.3</b>	\$ 924.4	\$ 846.2	%	9%

C&IS assets under custody totaled \$5.4 trillion, up 13% from the prior year quarter, and includes \$3.4 trillion of global custody assets, 14% higher compared to the prior year quarter. C&IS assets under management include \$120.9 billion of securities lending collateral, a 16% increase from the prior year quarter.

Changes in assets under custody and under management are in comparison to the twelve month increase in the S&P 500<sup>®</sup> index and MSCI EAFE<sup>®</sup> index (USD) of 17.3% and 1.5%, respectively.

**Table of Contents****THIRD QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)****Noninterest Income (continued)**

Custodied and managed assets were invested as follows at September 30, 2014, and 2013:

<b>Assets Under Custody</b>	2014			2013		
	C&IS	WM	Consolidated	C&IS	WM	Consolidated
Equities	<b>44%</b>	<b>55%</b>	<b>45%</b>	46%	53%	47%
Fixed Income Securities	<b>37</b>	<b>22</b>	<b>36</b>	35	23	34
Cash and Other Assets	<b>19</b>	<b>23</b>	<b>19</b>	19	24	19

**Assets Under Management**

Equities	<b>53%</b>	<b>48%</b>	<b>52%</b>	54%	45%	52%
Fixed Income Securities	<b>13</b>	<b>28</b>	<b>17</b>	13	28	17
Cash and Other Assets	<b>34</b>	<b>24</b>	<b>31</b>	33	27	31

Trust, investment and other servicing fees in C&IS increased \$40.1 million, or 11%, to \$399.9 million from the prior year quarter's \$359.8 million.

<b>C&amp;IS Trust, Investment and Other Servicing Fees</b> (\$ In Millions)	Three Months Ended September 30,		
	2014	2013	Change
Custody and Fund Administration	<b>\$ 275.0</b>	\$ 239.4	\$ 35.6 15%
Investment Management	<b>75.4</b>	71.3	&nb