

# Northern Trust Corporation

## First Quarter 2019 Quarterly Earnings Review

April 23, 2019



NORTHERN TRUST

# EXECUTIVE SUMMARY

- Net income of \$347.1 million, earnings per common share of \$1.48 and return on average common equity of 14.0%
- The first quarter included:
  - \$12.3 million charge associated with severance-related and restructuring charges

# SUMMARY RESULTS & KEY METRICS

\$ in millions (except EPS and as noted)

	1Q 2019	% Change Vs.	
		1Q 2018	4Q 2018
Revenue (FTE <sup>1</sup> )	\$1,488.7	-	(2)%
Noninterest Expense	1,028.7	+3%	+1%
Provision for Credit Losses	-	N/M	N/M
Net Income	\$347.1	(9)%	(15)%
Earnings per Share	\$1.48	(6)%	(18)%
Return on Equity <sup>2</sup>	14.0%	16.0%	17.0%
Assets under Custody / Administration <sup>3</sup> (in billions)	\$10,927	+1%	+8%
Assets under Custody <sup>3</sup> (in billions)	\$8,200	+1%	+8%
Global Custody Assets <sup>3</sup> (in billions)	\$5,113	+2%	+9%
Assets under Management <sup>3</sup> (in billions)	\$1,162	-	+9%

<sup>1</sup> Revenue stated on a fully taxable equivalent (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.

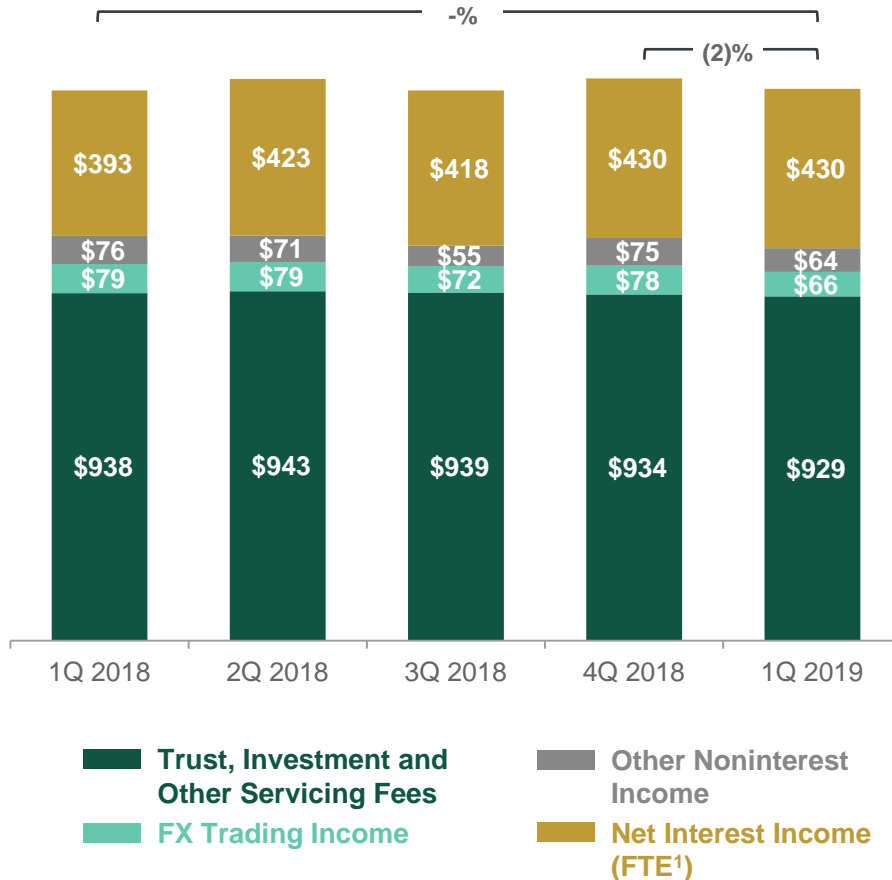
<sup>2</sup> Actual numbers for all periods, not % change.

<sup>3</sup> Client assets for the current quarter are considered preliminary until the Form 10-Q is filed with the Securities and Exchange Commission.

# TOTAL REVENUE

\$ in millions

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



- Trust, Investment & Other Servicing Fees were down 1% year-over-year and sequentially.
- Foreign Exchange Trading Income decreased 16% year-over-year and 15% sequentially.
- Other Noninterest Income was down 16% year-over-year and 15% sequentially.
- Net Interest Income (FTE<sup>1</sup>) was up 9% year-over-year and flat sequentially.

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 12.

# TRUST, INVESTMENT & OTHER SERVICING FEES

\$ in millions (except as noted)

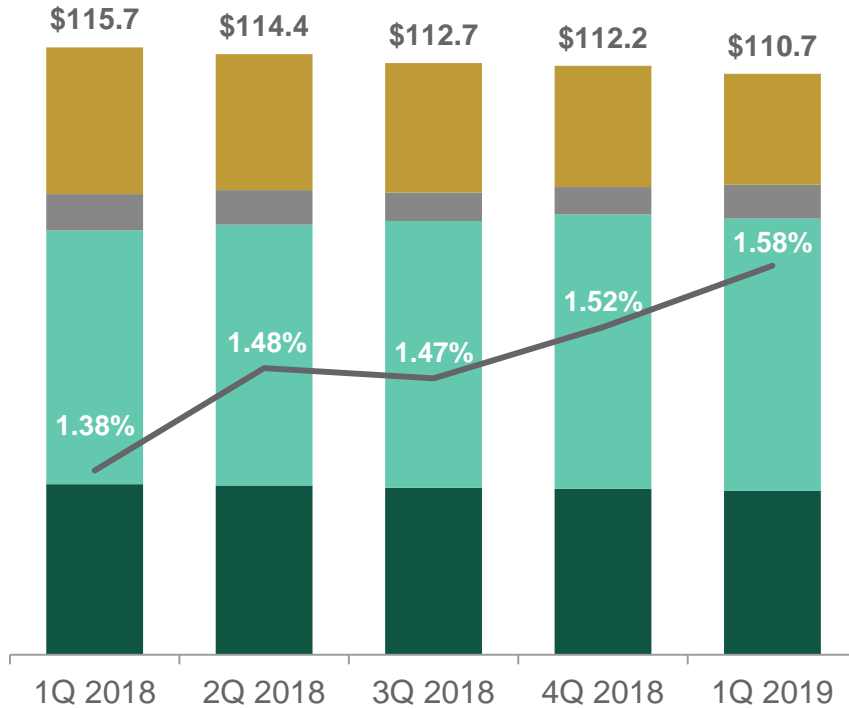
Trust, Investment & Other Servicing Fees	1Q 2019	% Change Vs.	
		1Q 2018	4Q 2018
Custody & Fund Administration	\$375.1	-	-
Investment Management	104.3	(5)%	(1)%
Securities Lending	22.7	(13)%	+5%
Other	33.1	(5)%	+1%
<i>Total Corporate &amp; Institutional Services</i>	<b>\$535.2</b>	(2)%	-
Central	\$150.7	(2)%	-
East	100.9	+2%	(2)%
West	79.5	+1%	(1)%
Global Family Office	62.6	+1%	(2)%
<i>Total Wealth Management</i>	<b>\$393.7</b>	-	(1)%
<u>Client Assets<sup>1</sup> (in billions):</u>			
C&IS AUC/A	\$10,239	+1%	+8%
C&IS AUC	\$7,529	+1%	+8%
Global Custody Assets	\$5,113	+2%	+9%
C&IS AUM	\$868	(1)%	+10%
Securities Lending Collateral	\$165	(12)%	+10%
Wealth Management AUC/A	\$688	+5%	+8%
Wealth Management AUC	\$671	+4%	+8%
Wealth Management AUM	\$294	+2%	+6%

- C&IS Trust, Investment & Other Servicing Fees were down 2% year-over-year and flat sequentially
  - Custody & fund administration fees were relatively unchanged year-over-year primarily due to new business, partially offset by unfavorable markets and the unfavorable impact of movements in foreign exchange rates. Sequentially, custody & fund administration fees were relatively unchanged primarily due to unfavorable markets, partially offset by new business and the favorable impact of movements in foreign exchange rates.
  - Investment management fees decreased year-over-year due to unfavorable markets. Sequentially, investment management fees decreased slightly primarily due to unfavorable markets, partially offset by new business.
  - Securities lending fees decreased year-over-year reflecting lower loan volumes. Sequentially, securities lending fees increased reflecting higher spreads.
- Wealth Management Trust, Investment & Other Servicing Fees were flat year-over-year primarily due to new business, partially offset by unfavorable markets. Sequentially, trust fees were down 1% primarily due to unfavorable markets, partially offset by new business.

<sup>1</sup> Client assets for the current quarter are considered preliminary until the Form 10-Q is filed with the Securities and Exchange Commission.

# NET INTEREST INCOME

## Average Earning Assets (\$ in billions)



NII (FTE <sup>1</sup> )	1Q 2018	2Q 2018	3Q 2018	4Q 2018	1Q 2019
in millions	\$392.7	\$422.6	\$418.5	\$430.1	\$429.8



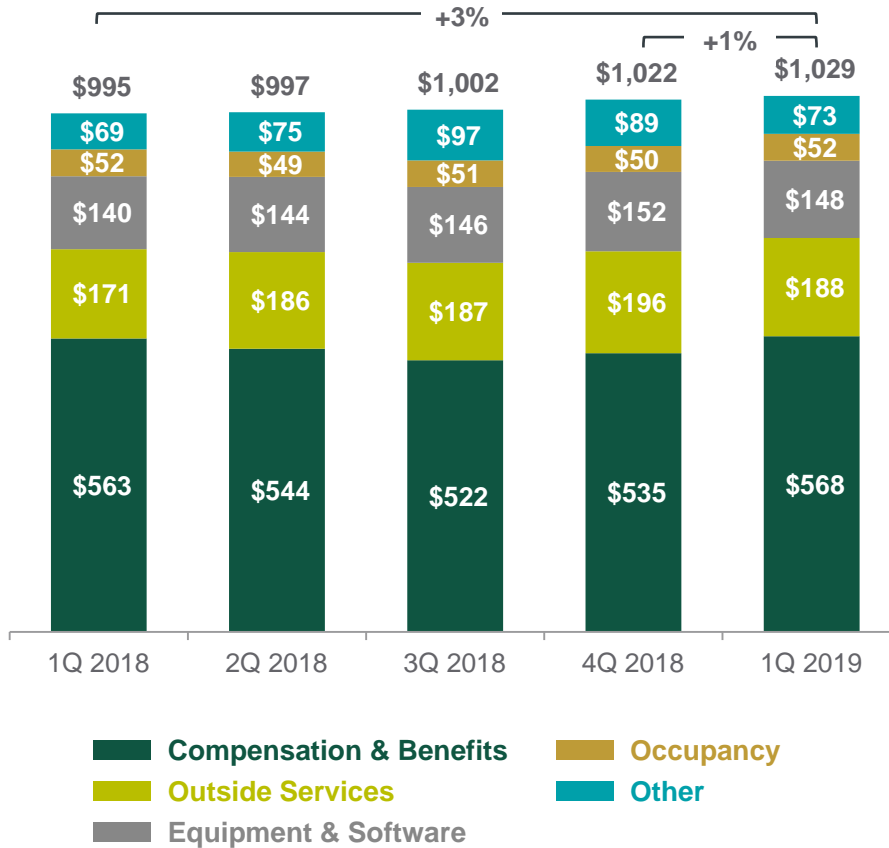
- Net Interest Income (FTE<sup>1</sup>) was up 9% year-over-year and flat sequentially and the net interest margin (FTE<sup>1</sup>) was 1.58%
- Average Earning Assets were down 4% year-over-year and 1% sequentially
- Net Interest Margin increased versus the prior-year quarter primarily due to higher short-term interest rates and a balance sheet mix shift.
- Net Interest Margin increased versus the prior quarter primarily due to higher short-term interest rates.
- In the quarter, there was additional foreign exchange trading income of \$13 million, offset by \$10 million less in net interest income due to foreign exchange swap activity within our Treasury function.
  - The prior quarter had additional foreign exchange trading income of \$17 million, offset by \$14 million less in net interest income.

<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. generally accepted accounting principles (GAAP) is included in the Appendix on page 12.

# NONINTEREST EXPENSE

\$ in millions

## Total Noninterest Expense



- Expenses totaled \$1.0 billion in the first quarter, up 3% year-over-year and 1% sequentially.
- The current quarter included the following item:
  - \$12.3 million charge associated with severance-related and restructuring charges
- The prior quarter included the following item:
  - \$5.7 million charge associated with severance-related and restructuring charges
- The prior-year quarter included the following item:
  - \$8.6 million charge associated with severance-related and other charges
- Excluding the items above, expenses were up 3% year-over-year and flat sequentially

Categories may not sum due to rounding.

# MAXIMIZING VALUE FOR SPEND

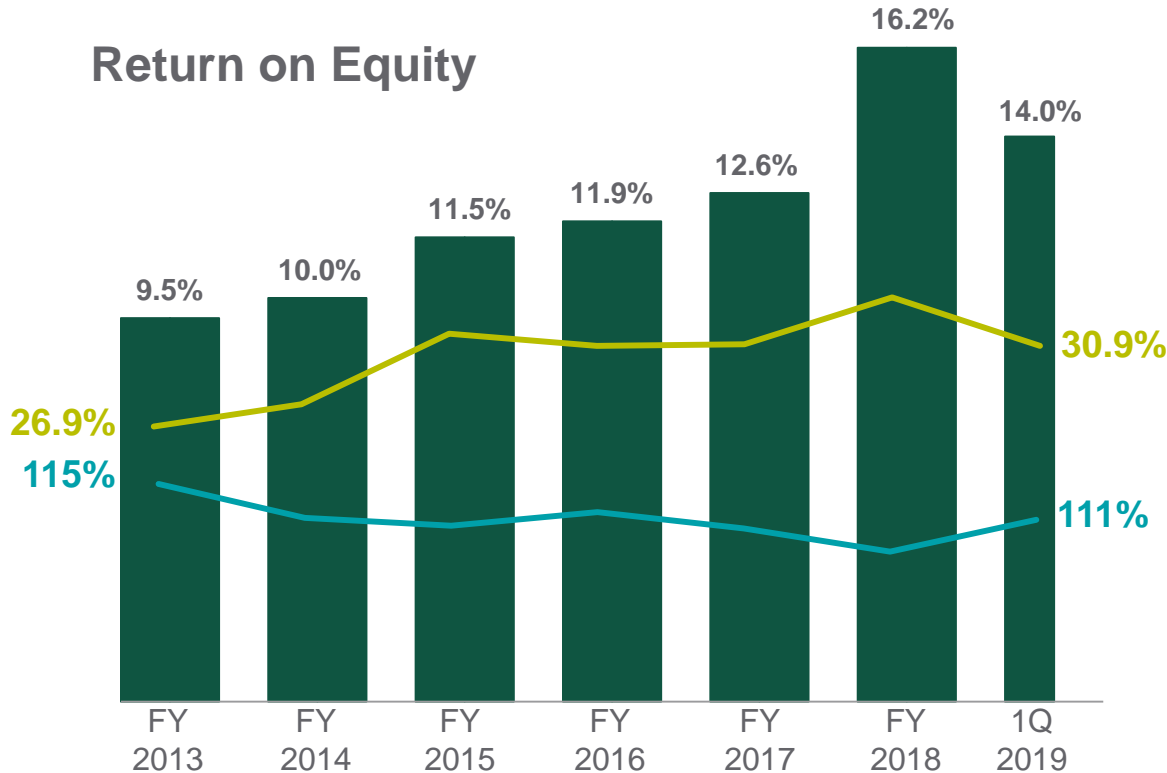
*Creating capacity for investment in growth*





# PROFITABILITY AND RETURNS

## Return on Equity



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

- We remain focused on sustainably improving profitability and returns
- Ratio of expenses to trust & investment fees was 111% for the first quarter of 2019
- Return on equity was 14.0%

<sup>1</sup> Pre-tax margin stated on an FTE basis is a non-GAAP financial measure. A reconciliation to pre-tax margin prepared in accordance with U.S. GAAP is included in the Appendix on page 12.

# CAPITAL

## Northern Trust Corporation Capital Ratios

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### *Advanced Approach*

Common Equity Tier 1	13.5%
Tier 1	14.8%
Total	16.6%
Tier 1 Leverage	8.2%
Supplementary Leverage	7.2%

### *Standardized Approach*

Common Equity Tier 1	13.0%
Tier 1	14.3%
Total	16.3%
Tier 1 Leverage	8.2%

## Capital Return

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- Declared \$133.7 million in common stock dividends and repurchased \$257.4 million of common stock in 1Q 2019
- Capacity to repurchase up to \$272 million of common stock through June 2019 under our 2018 capital plan

As of March 31, 2019. Capital ratios are considered preliminary until the Form 10-Q is filed with the Securities and Exchange Commission.

# Appendix



NORTHERN TRUST

# RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The following table presents a reconciliation of total revenue, net interest income, net interest margin and pre-tax margin prepared in accordance with GAAP to such measures on a fully taxable equivalent (FTE) basis, which are non-GAAP financial measures.

Management believes this presentation provides a clearer indication of these financial measures for comparative purposes.

	Revenue				
	1Q19	4Q18	3Q18	2Q18	1Q18
Reported	\$ 1,480.9	\$ 1,503.8	\$ 1,474.3	\$ 1,506.1	\$ 1,476.0
FTE Adj.	\$ 7.8	\$ 12.9	\$ 10.3	\$ 9.3	\$ 8.7
FTE	\$ 1,488.7	\$ 1,516.7	\$ 1,484.6	\$ 1,515.4	\$ 1,484.7

	Net Interest Income				
	1Q19	4Q18	3Q18	2Q18	1Q18
Reported	\$ 422.0	\$ 417.2	\$ 408.2	\$ 413.3	\$ 384.0
FTE Adj.	\$ 7.8	\$ 12.9	\$ 10.3	\$ 9.3	\$ 8.7
FTE	\$ 429.8	\$ 430.1	\$ 418.5	\$ 422.6	\$ 392.7

NIM - Reported	1.55%	1.48%	1.44%	1.45%	1.35%
NIM - FTE	1.58%	1.52%	1.47%	1.48%	1.38%

	Pre-tax Margin						
	1Q19	FY 2018	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
Revenue - Reported	\$ 1,480.9	\$ 5,960.2	\$ 5,375.3	\$ 4,961.8	\$ 4,702.6	\$ 4,331.2	\$ 4,089.3
Pre-Tax Income - Reported	\$ 452.2	\$ 1,957.8	\$ 1,633.9	\$ 1,517.1	\$ 1,465.0	\$ 1,190.2	\$ 1,075.5
FTE Adj.*	\$ 7.8	\$ 41.2	\$ 45.8	\$ 25.1	\$ 25.3	\$ 29.4	\$ 32.5
Revenue - FTE	\$ 1,488.7	\$ 6,001.4	\$ 5,421.1	\$ 4,986.9	\$ 4,727.9	\$ 4,360.6	\$ 4,121.8
Pre-Tax Income - FTE	\$ 460.0	\$ 1,999.0	\$ 1,679.7	\$ 1,542.2	\$ 1,490.3	\$ 1,219.6	\$ 1,108.0
Pre-Tax Margin - Reported	30.5%	32.8%	30.4%	30.6%	31.2%	27.5%	26.3%
Pre-Tax Margin - FTE	30.9%	33.3%	31.0%	30.9%	31.5%	28.0%	26.9%

\* FTE Adjustment applies to both revenue and pre-tax income

# FORWARD-LOOKING STATEMENTS

This presentation may include statements which constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified typically by words or phrases such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” “likely,” “plan,” “goal,” “target,” “strategy,” and similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would,” and “could.” Forward-looking statements include statements, other than those related to historical facts, that relate to Northern Trust’s financial results and outlook, capital adequacy, dividend policy and share repurchase program, accounting estimates and assumptions, credit quality including allowance levels, future pension plan contributions, effective tax rate, anticipated expense levels, contingent liabilities, acquisitions, strategies, industry trends, and expectations regarding the impact of recent accounting pronouncements and legislation. These statements are based on Northern Trust’s current beliefs and expectations of future events or future results, and involve risks and uncertainties that are difficult to predict and subject to change. These statements are also 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.

*This presentation should be reviewed together with Northern Trust Corporation’s  
First Quarter 2019 earnings press release, which is available at:*

*[www.northerntrust.com/about-us/investor-relations/financial-information/earnings-releases](http://www.northerntrust.com/about-us/investor-relations/financial-information/earnings-releases)*