

Northern Trust

Annual Company-Run Stress Test Results

Dodd-Frank Act Stress Test Disclosure

Supervisory Severely Adverse Scenario

March 5, 2015



Northern Trust

Introduction

Northern Trust Corporation (Northern Trust or the Corporation) is a financial holding company that is a leading provider of asset servicing, fund administration, asset management, fiduciary and banking solutions for corporations, institutions, families and individuals worldwide. Northern Trust's principal subsidiary, The Northern Trust Company (the Bank), represents nearly 100% of the consolidated assets of the Corporation. The Bank was founded in 1889 and conducts business through a network of offices in 19 U.S. states, Washington, D.C., and 20 international locations in Canada, Europe, the Middle East, and the Asia-Pacific region.

The Corporation and the Bank are required to conduct company-run stress tests and disclose a summary of those results pursuant to the requirements of 12 CFR Part 252 (the Regulation). Accordingly, management has developed the following disclosure, which contains the information required by the Regulation to be disclosed publicly. Any differences in the presentation of information concerning either the Corporation or the Bank contained herein relative to how such information is presented for other purposes is solely due to efforts to comply with the Regulation. The information presented herein does not, in any way, reflect changes to the business plans, practices, or strategy of either the Corporation or the Bank. The projections contained herein are based on the severely adverse scenario provided by the Board of Governors of the Federal Reserve System for the 2015 Comprehensive Capital Analysis and Review (Supervisory Severely Adverse Scenario) and assumptions required by the Regulation. Accordingly, these projections represent (1) hypothetical estimates that involve an economic outcome more adverse than expected, and (2) are not projections of expected pre-provision net revenue (PPNR), losses, net income before taxes or capital ratios.

The Regulation requires Northern Trust to include, among other things, certain assumptions with respect to capital actions (Dodd-Frank Act Capital Actions) including for each of the second through ninth quarters of the assessment horizon: common stock dividends equal to the quarterly average dollar amount of common stock dividends that the Corporation paid in the previous year; payments on any other instrument eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter; and no redemption or repurchase of any capital instrument eligible for inclusion in the numerator of a regulatory capital ratio.

Risks Included in the Stress Test

When conducting the company-run stress test under the Supervisory Severely Adverse Scenario with Dodd-Frank Act Capital Actions, Northern Trust evaluated and incorporated the principal risks which impact this assessment. These risks include credit risk, operational risk, market risk and strategic risk.

Credit risk is the risk to interest income or principal due to the failure of a borrower or counterparty to perform on an obligation. Credit risk is inherent in many of Northern Trust's activities. A significant component of credit risk relates to the securities portfolio and loan portfolio. In addition, credit risk is inherent in certain contractual obligations such as legally binding commitments to extend credit, commercial letters of credit and standby letters of credit.

Operational risk represents the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is the potential that inadequate information systems, operating problems, product design and delivery difficulties, or catastrophes will result in unexpected losses. Examples include, but are not limited to, internal and external fraud; damage to physical assets; business disruption and system failures; execution, delivery and process management errors; and losses related to clients, products and business practices. Operational risk also includes fiduciary, compliance and legal risks, which under Northern Trust's risk structure are governed and managed explicitly.

Market risk refers to interest rate risk in the banking book and trading risk. Interest rate risk is the potential for movements in interest rates to cause changes in earnings or the valuations of assets and liabilities. Changes in interest rates can have a positive or negative impact on earnings depending on the positioning of assets, liabilities, and off-balance sheet instruments. The impact to earnings will primarily come through net interest income, but it can also impact certain types of fees. Trading risk is the potential for movements in market variables such as foreign exchange and interest rates to cause changes in the value of trading positions. Northern Trust is exposed to trading risk primarily through foreign exchange trading.

Strategic risk is the long-term risk to earnings or capital from adverse effects of business decisions, improper implementation of business decisions, unexpected external events or damage to the Corporation's reputation from negative public opinion. Included in strategic risk are: strategy risk, the long-term risk to earnings or capital from adverse effects of business decisions, improper implementation of business decisions and unexpected external events; business risk, the risk arising from general economic conditions and external factors in which Northern Trust operates that could adversely affect its revenues, profits and or capital; and reputation risk, the risk arising from negative perception on the part of clients, counterparties, stockholders, investors, debt holders, market analysts, regulators, staff, or other relevant parties that adversely affects Northern Trust's ability to conduct its business or to access sources of funding.

Methodologies Used in the Stress Test

Northern Trust uses a series of models and estimation techniques that translate the economic and financial variables in the Supervisory Severely Adverse Scenario to project PPNR, provision for loan and lease losses, and net income before taxes. General descriptions of the methodologies used in the company-run stress test under the Supervisory Severely Adverse Scenario are described below.

Northern Trust's PPNR is comprised of trust, investment and other servicing fees, other noninterest income, net interest income, and noninterest expense, including operational losses. Trust, investment and other servicing fees are projected from models that are based on statistical relationships with macroeconomic indicators, such as equity indices, gross domestic product (GDP) and interest rates. In addition, Northern Trust utilizes statistically based challenger models that serve to complement and challenge revenue projections for certain trust, investment and other servicing fees.

In a process similar to that used to project trust, investment and other servicing fees, Northern Trust utilizes various models to project levels of certain on- and off-balance sheet items, primarily loans and deposits. For balance sheet items such as investment securities, money market assets and borrowed funds, all of which are influenced by projected levels of deposits and loans, management projections are used to estimate levels across the assessment horizon. Having determined projections of on- and off-balance sheet exposures, Northern Trust utilizes its asset liability modeling to project net interest income and accumulated other comprehensive income (AOCI) on the available for sale securities portfolio for each scenario. Additionally, Northern Trust utilizes this exposure information to calculate credit risk-weighted assets under Basel I and Basel III Standardized regimes, and to this amount adds risk-weighted assets related to its market risk.

Other noninterest income consists of foreign exchange trading income, treasury management fees, securities commissions and trading income, and other operating income. All are projected using management judgment, which is informed by analysis of historical trends and Northern Trust's current and projected business mix.

Northern Trust projects noninterest expense through a comprehensive analysis of projections that are based on management's assessment of the macroeconomic scenario, business strategies, competitive dynamics, historical relationships and experience. Primary expense categories are compensation and benefits, equipment and software, and outside services.

Northern Trust utilizes its Basel Advanced Measurement Approach quantification process to project expected operational losses. Given the macroeconomic factor projections in a scenario, Northern Trust estimates the impact on the frequency of operational losses across the assessment horizon. Management reviews the results for reasonableness given the conditions of the scenario, and as a result of this review, management judgment may be applied to adjust the modeled operational loss results.

Northern Trust projects credit losses under stressed economic conditions by utilizing models and qualitative assessments that consider relationships between macroeconomic indicators and portfolio characteristics including obligor and loan level attributes. Management utilizes these segment-specific models to calculate probability of default (PD) and loss given default (LGD) parameters over each scenario's assessment horizon. Segment level expected losses are aggregated for each scenario. Final expected losses are utilized to project non-performing loans, charge-offs, and the reserve and provision for credit losses.

Vended statistical models are used to project other-than-temporary impairment (OTTI) for components of the investment securities portfolio, specifically for asset backed securities and residential mortgage backed securities. These models generally project prepayment, default, and loss severities based on macroeconomic variables and loan-specific factors. Additionally, internal analysis is employed to project OTTI on the remaining segments of the investment portfolio, including corporate bonds, covered bonds, sovereign bonds, supranational bonds, non-U.S. agency bonds, municipal securities and community reinvestment act (CRA) securities.

Under these methods, OTTI determination is based on a ratings migration approach or, in the case of CRA securities, default and loss rates on similar investments in the loan portfolio.

Summary of Results for Northern Trust Corporation's Company-Run Annual Stress Test under the Supervisory Severely Adverse Scenario

The Supervisory Severely Adverse Scenario features a substantial weakening in global economic activity, accompanied by large reductions in asset prices. In the scenario, the U.S. corporate sector experiences financial distress which is reflected in a widening of corporate bond spreads and a decline in equity prices. The scenario also includes a near-term rise in oil prices (Brent crude) to approximately \$110 per barrel.

As a result of these circumstances, Northern Trust's balance sheet is projected to decline slightly the first few quarters of the assessment horizon, before beginning to increase again. Overall deposit levels decrease modestly in 2015 but rise slightly in 2016, while loans and investment securities decline over the nine-quarter horizon. Additionally, both residential and commercial real estate credit quality are projected to deteriorate as macroeconomic conditions worsen, causing credit losses to rise and remain elevated across the assessment horizon. The provision for credit losses is projected to rise significantly in Q4 2014.

Total revenues are projected to decline across the assessment horizon. Trust, investment and other servicing fees are projected to decline due to falling equity markets and deteriorating GDP levels. Net interest income is projected to increase slightly in 2015, before falling again as a result of a shrinking balance sheet and low net interest margins. Noninterest expense increases slightly across the horizon. Consequently, annual net income is projected to decline in 2015 compared to 2014, before recovering marginally in 2016 as macroeconomic conditions improve.

Northern Trust's Tier 1 Common ratio is projected to decline slightly over the assessment horizon due to lower levels of projected net income. Additionally, the Common Equity Tier 1, Tier 1, and Total Risk-Based Capital ratios are each projected to decline over the assessment horizon due in part to the transition from the Basel I to Basel III standardized approach for risk-weighted asset (RWA) requirements beginning in Q1 2015, which increases levels of risk-weighted assets through 2016. The Tier 1 Leverage ratio is also projected to decrease slightly over the assessment horizon driven by lower Tier 1 Capital levels.

Northern Trust Corporation's Projected Stressed Capital Ratios through Q4 2016 under the Supervisory Severely Adverse Scenario			
	Actual Q3 2014	Stressed Capital Ratios	
		Q4 2016	Minimum over Projection Horizon
Tier 1 Common Ratio	12.8%	12.7%	11.9%
Common Equity Tier 1 Capital Ratio	12.8%	11.0%	10.4%
Tier 1 Risk-Based Capital Ratio	13.6%	11.6%	11.0%
Total Risk-Based Capital Ratio	16.0%	13.6%	13.6%
Tier 1 Leverage Ratio	7.9%	7.5%	7.5%

Northern Trust Corporation's Projected Losses, Revenue, and Net Income Before Taxes for Q4 2014 through Q4 2016 under the Supervisory Severely Adverse Scenario		
	Billions of Dollars	Percent of Average Assets
Pre-Provision Net Revenue	\$1.4	1.5%
Other Revenue	-	-
<i>less</i>		
Provisions	\$1.0	1.0%
Realized Losses/Gains on Securities (AFS/HTM)	\$0.0	0.0%
Trading and Counterparty Losses	-	-
Other Losses/Gains	-	-
<i>equals</i>		
Net Income Before Taxes	\$0.4	0.4%

Northern Trust Corporation's Projected Loan Losses by Type of Loans for Q4 2014 through Q4 2016 under the Supervisory Severely Adverse Scenario		
	Billions of Dollars	Portfolio Loss Rates(1)
Loan Losses	\$0.9	2.9%
First-Lien Mortgages, Domestic	\$0.1	1.7%
Jr Liens and HELOCs, Domestic	\$0.1	3.9%
Commercial and Industrial	\$0.3	4.3%
Commercial Real Estate, Domestic	\$0.2	5.3%
Credit Cards	-	-
Other Consumer	\$0.0	4.6%
Other Loans	\$0.2	1.8%

(1) Percent of average portfolio balance

Summary of Results for The Northern Trust Company's Company-Run Annual Stress Test under the Supervisory Severely Adverse Scenario

When conducting the company-run stress test, the Bank evaluated the types of risks and utilized the same methodologies as described above in the discussion concerning Northern Trust, as the Bank represents nearly 100% of the consolidated assets of Northern Trust and its business mix and processes are virtually identical to those of the Corporation.

The Bank's Tier 1 Common ratio is projected to increase over the assessment horizon driven by increased levels of common equity, which result from a decision to temporarily suspend dividends from the Bank beginning in Q1 2015. The Common Equity Tier 1, Tier 1, Total Risk-Based Capital and Tier 1 Leverage ratios each are projected to increase slightly over the assessment horizon as increased equity offsets the impact of the transition from the Basel I to Basel III standardized approach for capital requirements beginning in Q1 2015, which increases levels of risk-weighted assets throughout 2016.

The Northern Trust Company's Projected Stressed Capital Ratios through Q4 2016 under the Supervisory Severely Adverse Scenario			
	Actual Q3 2014	Stressed Capital Ratios	
		Q4 2016	Minimum over Projection Horizon
Tier 1 Common Ratio	11.7%	13.7%	11.2%
Common Equity Tier 1 Capital Ratio	11.6%	11.8%	9.8%
Tier 1 Risk-Based Capital Ratio	11.6%	11.8%	9.8%
Total Risk-Based Capital Ratio	14.0%	13.6%	12.4%
Tier 1 Leverage Ratio	6.8%	7.6%	7.1%

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, including projections of our financial results and condition and capital ratios under a hypothetical scenario that incorporates a set of assumed economic and financial conditions prescribed by our regulators. The projections are not intended to be our forecast of expected future economic or financial conditions or our forecast of the Corporation's or the Bank's expected future financial results or condition, but rather reflect possible results under the prescribed hypothetical scenario. Our future financial results and conditions will be influenced by actual economic and financial conditions and other factors described in our reports filed with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2014, all of which are available on our website. Northern Trust assumes no obligation to update its forward-looking statements.