NORTHERN TRUST CORP
Form 10-K
February 26, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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 La Salle Street Chicago, Illinois (Address of principal executive offices)	60603 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, $1.66 $^{2}/_{3}$ Par Value	The NASDAQ Stock Market LLC
Depositary Shares, each representing 1/1000th interest in a share of Series C Non-Cumulative Perpetual Preferred Stock	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The aggregate market value of the registrant s common stock as of June 30, 2014 (the last business day of the registrant s most recently completed second quarter), based upon the last sale price of the common stock at June 30, 2014 as reported by The NASDAQ Stock Market LLC, held by non-affiliates was approximately $15.1 billion. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement and the registrant is not bound by this determination for any other purpose.

At January 31, 2015, 233,486,704 shares of common stock, $1.66 2/3 par value, were outstanding.

Portions of the registrant s Proxy Statement for its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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SECURITIES EXCHANGE ACT OF 1934

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PART I

ITEM 1 BUSINESS

Northern Trust Corporation

Northern Trust Corporation (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. The Corporation conducts business through various U.S. and non-U.S. subsidiaries, including The Northern Trust Company (Bank). The Corporation was originally formed as a holding company for the Bank in 1971. The Corporation has 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. At December 31, 2014, the Corporation had consolidated total assets of $109.9 billion and stockholders equity of $8.4 billion.

The Bank is an Illinois banking corporation headquartered in Chicago and the Corporation s principal subsidiary. Founded in 1889, the Bank conducts its business through its U.S. operations and its various U.S. and non-U.S. branches and subsidiaries. At December 31, 2014, the Bank had consolidated assets of $109.6 billion and common bank equity capital of $7.6 billion.

The Corporation expects that the Bank will continue in the foreseeable future to be the major source of the Corporation s consolidated assets, revenues, and net income. Except where the context otherwise requires, references to Northern Trust, we, us, our or similar terms mean Northern Trust Corporation and its subsidiaries on a consolidated basis.

Business Overview

Northern Trust focuses on managing and servicing client assets through its two client-focused reporting segments: Corporate & Institutional Services (C&IS) and Wealth Management. Asset management and related services are provided to C&IS and Wealth Management clients primarily by the Asset Management business. The revenue and expenses of Asset Management and certain other support functions are allocated fully to C&IS and Wealth Management. Northern Trust also makes use of a third reporting segment, Treasury and Other, under which it reports certain income and expense items not allocated to C&IS and Wealth Management.

CORPORATE & INSTITUTIONAL SERVICES

C&IS is a leading global provider of asset servicing and related services to corporate and public retirement funds, foundations, endowments, fund managers, insurance companies, sovereign wealth funds, and other institutional investors around the globe. Asset servicing and related services encompass a full range of capabilities including, but not limited to: global master trust and custody; employee benefit services; fund administration; investment operations outsourcing; investment risk and analytical services; securities lending; foreign exchange; banking; cash management; treasury management; brokerage services; and transition management services. Client relationships are managed through the Bank and the Bank s and the Corporation s other subsidiaries, including support from locations in North America, Europe, the Middle East, and the Asia-Pacific region. At December 31, 2014, total C&IS assets under custody were $5.5 trillion and assets under management were $709.6 billion.

WEALTH MANAGEMENT

Wealth Management provides trust, investment management, custody, and philanthropic services; financial consulting; guardianship and estate administration; family business consulting; family financial education; brokerage services; and private and business banking. Wealth Management focuses on high-net-worth individuals and families, business owners, executives, professionals, retirees, and established privately-held businesses in its target markets. Wealth Management also includes the Global Family Office, which provides customized services to meet the complex financial needs of individuals and family offices in the United States and throughout the world with assets typically exceeding $200 million.

Wealth Management is one of the largest providers of advisory services in the United States, with $515.7 billion in assets under custody and $224.5 billion in assets under management at December 31, 2014. Wealth Management services are delivered by multidisciplinary teams through a network of offices in 18 U.S. states and Washington, D.C., as well as offices in London, Guernsey, and Abu Dhabi.

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ASSET MANAGEMENT

Asset Management, through the Corporation s various subsidiaries, supports the C&IS and Wealth Management reporting segments by providing a broad range of asset management and related services and other products to clients around the world. Investment solutions are delivered through separately managed accounts, bank common and collective funds, registered investment companies, exchange traded funds, non-U.S. collective investment funds, and unregistered private investment funds. Asset Management s capabilities include active, passive and engineered equity; active and passive fixed income; cash management; alternative asset classes (such as private equity and hedge funds of funds); and multi-manager advisory services and products. Asset Management s activities also include overlay services and other risk management services. Asset Management operates internationally through subsidiaries and distribution arrangements and its revenue and expense are fully allocated to C&IS and Wealth Management.

Competition

Northern Trust faces intense competition in all aspects and areas of its business. Competition is provided by both unregulated and regulated financial services organizations, whose products and services span the local, national, and global markets in which Northern Trust conducts operations. Our competitors include a broad range of financial institutions and servicing companies, including other custodial banks, deposit-taking institutions, asset management firms, benefits consultants, trust companies, investment banking firms, insurance companies, and investment counseling firms.

Northern Trust s principal business strategy is to provide quality financial services to targeted market segments in which it believes it has a competitive advantage and favorable growth prospects. As part of this strategy, Northern Trust seeks to deliver a level of service that distinguishes it from its competitors. In addition, Northern Trust emphasizes the development and growth of recurring sources of fee-based income. Northern Trust seeks to develop and expand its recurring fee-based revenue by identifying select markets with attractive growth characteristics and providing a high level of individualized service to clients in those markets. Northern Trust also seeks to preserve its asset quality through established credit review procedures and to maintain a conservative balance sheet. Finally, Northern Trust seeks to operate with a strong management team that includes senior officers having broad experience and long tenures.

Economic Conditions And Government Policies

The earnings of Northern Trust are affected by numerous external influences. Chief among these are general economic conditions, both domestic and international, and actions that governments and their central banks take in managing their economies. These general conditions affect all of Northern Trust s businesses, as well as the quality, value, and profitability of their loan and investment portfolios.

The Board of Governors of the Federal Reserve System (Federal Reserve Board) implements monetary policy through its open market operations in United States Government securities, its setting of the discount rate at which member banks may borrow from Federal Reserve Banks, and its changes in the reserve requirements for deposits. The policies adopted by the Federal Reserve Board directly affect interest rates and hence what banks earn on their loans and investments and what they pay on their savings and time deposits and other purchased funds.

Supervision And Regulation

Northern Trust is subject to extensive regulation under state and federal laws in the United States, as well as the applicable laws of each of the various jurisdictions outside the United States in which Northern Trust does business. The discussion below outlines significant elements of selected laws and regulations applicable to Northern Trust. Changes in these laws or regulations, or their application, cannot be predicted, but may have a material effect on Northern Trust s businesses and results of operations.

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FINANCIAL HOLDING COMPANY REGULATION

Under U.S. law, the Corporation is a bank holding company that has elected to be a financial holding company under the Bank Holding Company Act of 1956, as amended (BHCA). Consequently, the Corporation and its business activities throughout the world are subject to the supervision, examination, and regulation of the Federal Reserve Board. The BHCA and other federal laws subject bank and financial holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements, including enforcement actions for violations of laws and regulations. Supervision and regulation of bank holding companies, financial holding companies, and their subsidiaries are intended primarily for the protection of depositors and other clients of banking subsidiaries, the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (FDIC), and the banking system as a whole, not for the protection of stockholders or other non-depository creditors.

Under the BHCA, bank holding companies and their banking subsidiaries are generally limited to the business of banking and activities closely related or incidental to banking. As a financial holding company, the Corporation is permitted to engage in other activities that the Federal Reserve Board determines to be financial in nature, incidental to an activity that is financial in nature, or complementary to a financial activity and that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally, or to acquire shares of companies engaged in such activities. Activities defined to be financial in nature include: providing financial or investment advice; securities underwriting and dealing; insurance underwriting; and making merchant banking investments in commercial and financial companies, subject to significant limitations. They also include activities previously determined by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The Corporation may not, however, directly or indirectly acquire the ownership or control of more than 5% of any class of voting shares, or substantially all of the assets, of a bank holding company or a bank, without the prior approval of the Federal Reserve Board.

In order to maintain the Corporation s status as a financial holding company, each of the Corporation s insured depository institution subsidiaries must remain well-capitalized and well-managed under applicable regulations, and must have received at least a satisfactory rating in its most recent examination under the Community Reinvestment Act (CRA). In addition, as a result of the amendment of the BHCA by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), as discussed further below, the Corporation must remain well-capitalized and well-managed in order to maintain its status as a financial holding company. Failure to meet one or more of these requirements would mean, depending on the requirements not met, that the Corporation could not undertake new activities, continue certain activities, or make acquisitions other than those permitted generally for bank holding companies.

SUBSIDIARY REGULATION

The Bank is a member of the Federal Reserve System, its deposits are insured by the FDIC up to the maximum authorized limit, and it is subject to regulation by both these agencies. As an Illinois banking corporation, the Bank is also subject to Illinois state laws and regulations and to examination and supervision by the Division of Banking of the Illinois Department of Financial and Professional Regulation. The Bank is registered as a government securities dealer in accordance with the Government Securities Act of 1986. As a government securities dealer, its activities are subject to the rules and regulations of the Department of the Treasury. The Bank is also registered as a transfer agent with the Federal Reserve Board and is therefore subject to the rules and regulations of the Federal Reserve Board in this area.

The Bank is registered provisionally with the U.S. Commodity Futures Trading Commission (CFTC) under the Commodity Exchange Act as a swap dealer. As a provisionally registered swap dealer, the Bank is subject to significant regulatory obligations regarding swap activity and the supervision, examination and enforcement power of the CFTC and other regulators. Certain of the Corporation s other affiliates are registered with the CFTC as a commodity trading advisor or commodity pool operator under the Commodity Exchange Act and are subject to that act and the associated rules and regulations of the CFTC.

The Corporation s nonbanking affiliates are all subject to examination by the Federal Reserve Board. Its broker-dealer subsidiary is registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority, subject to the rules and regulations of both of these bodies. Several subsidiaries of the Corporation are registered with the SEC under the Investment Advisers Act of 1940 and are subject to that act and the rules and regulations

promulgated thereunder. Other subsidiaries are regulated by state banking departments in various states. The Bank and other subsidiaries of the Corporation act as investment advisers to several mutual funds and other asset managers which are subject to regulation by the SEC under the Investment Company Act of 1940. The Bank is registered with the SEC and Municipal Securities Rulemaking Board as a municipal securities dealer and another subsidiary of the Corporation is registered as both a municipal securities dealer and a municipal securities advisor with the same regulators.

FUNCTIONAL REGULATION

Federal banking law has established a system of federal and state supervision and regulation based on functional regulation, meaning that primary regulatory oversight for a particular activity generally resides with the federal or state regulator designated as having the principal responsibility for that activity. Banking is supervised by federal and state banking regulators, insurance by state insurance regulators, derivatives and swaps activities by the CFTC, and securities activities by the SEC and state securities regulators.

A significant component of the functional regulation relates to the application of federal securities laws and SEC oversight of some bank securities activities. Generally, banks may conduct securities activities without broker-dealer registration only if the activities fall within a set of activity-based exemptions designed to allow banks to conduct only those activities traditionally considered to be primarily banking or trust activities. Securities activities outside these exemptions, as a practical matter, need to be conducted by a registered broker-dealer affiliate. The Investment Advisers Act of 1940 requires the registration of any bank or separately identifiable division of the bank that acts as investment adviser for mutual funds.

Another component of the functional regulation relates to the application of federal commodity and derivatives laws and CFTC oversight of some bank commodity and derivatives activities, including swap-dealing activities.

THE DODD-FRANK ACT

The Dodd-Frank Act has had, and is expected to continue to have, a broad impact on the financial services industry, imposing significant new regulatory and compliance requirements, including the imposition of increased capital, leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act established a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve Board, and the FDIC. The following items provide a brief description of certain provisions of the Dodd-Frank Act that are most relevant to the Corporation and its banking subsidiaries, including the Bank.

Enhanced Prudential Standards. The Dodd-Frank Act imposed enhanced prudential requirements on U.S. bank holding companies with at least $50 billion in total consolidated assets, including the Corporation. The enhanced prudential standards include more stringent risk-based capital, leverage, liquidity, risk management, and stress testing requirements and single counterparty credit limits for large bank holding companies, including the Corporation. The Federal Reserve Board also has the discretion to require these large U.S. bank holding companies to limit their short-term debt, to issue contingent capital instruments, and to provide enhanced public disclosures. The Federal Reserve Board has issued final rules implementing enhanced prudential standards for more stringent risk-based capital, leverage, liquidity, risk management, and stress testing requirements. Under the final rules, which became effective January 1, 2015, the Corporation must submit annual capital plans to the Federal Reserve Board, be subject to supervisor-conducted periodic stress tests to evaluate capital adequacy in adverse economic conditions, conduct capital stress tests, implement enhanced risk management procedures, comply with a liquidity risk management framework (discussed below in Liquidity Standards), conduct liquidity stress tests, and hold a buffer of liquid assets estimated to meet funding needs during a financial stress event. The Federal Reserve Board also has proposed rules that would implement aggregate credit exposure limits and early remediation requirements that are required to be established under sections 165 and 166 of the Dodd-Frank Act, but these proposed rules have not yet been finalized.

Resolution Planning. As required by the Dodd-Frank Act, the Federal Reserve Board and FDIC have jointly issued a final rule requiring the Corporation to submit periodically to regulators a resolution plan for its rapid and orderly resolution in the event of material financial distress or failure. In addition, the FDIC has issued a final rule requiring the Bank to submit to the

FDIC periodic plans for resolution in the event of the Bank s failure. The Corporation and the Bank submitted a single resolution plan that complies with these rules in December 2014. A similar directive has been adopted for European Union credit institutions.

Orderly Liquidation Authority. Under the Dodd-Frank Act, certain financial companies, such as the Corporation and certain of its covered subsidiaries, can be subjected to a new orderly liquidation authority. For the orderly liquidation authority to apply, the U.S. Treasury Secretary, in consultation with the President of the United States, must make a determination, among other things, that the Corporation is in default or danger of default, the failure of the Corporation and its resolution under the U.S. Bankruptcy Code would have serious adverse effects on financial stability in the United States, no viable private sector alternative is available to prevent the default of the Corporation, and orderly liquidation authority proceedings would mitigate these adverse effects. This determination must be recommended by two-thirds of the FDIC Board of Directors and two-thirds of the Federal Reserve Board. Absent such actions, the Corporation, as a bank holding company, would remain subject to the U.S. Bankruptcy Code. The orderly liquidation authority became effective in July 2010, and rulemaking is proceeding in stages. If the Corporation were subject to orderly liquidation authority, the FDIC would be appointed as its receiver, which would give the FDIC considerable powers to resolve the Corporation, including: (1) the power to remove officers and directors responsible for the Corporation s failure and to appoint new directors and officers; (2) the power to assign assets and liabilities to a third party or bridge financial company without the need for creditor consent or prior court review; (3) the ability to differentiate among creditors, including by treating junior creditors better than senior creditors, subject to a minimum recovery right to receive at least what such senior creditors would have received in bankruptcy liquidation; and (4) broad powers to administer the claims process to determine distributions from the assets of the receivership to creditors not transferred to a third party or bridge financial institution.

The Volcker Rule. The Volcker rule became effective on July 21, 2012, and, in December 2013, U.S. regulators issued final regulations to implement it. In December 2013, the Federal Reserve Board extended the conformance period for compliance with the Volcker rule until July 21, 2015. The Federal Reserve Board subsequently extended the conformance period for compliance with certain portions of the prohibition against sponsoring or investing in certain private funds until July 21, 2017. The Volcker rule bans proprietary trading subject to exceptions for market making, hedging, certain trading activities in U.S. and foreign sovereign debt, certain trading activities of non-U.S. banking entities trading outside the United States, and trading activities related to liquidity management. The Volcker rule also maintains the ban on sponsoring or investing in certain covered funds, such as hedge funds or private equity funds. While a banking entity may organize and offer certain private funds if certain conditions are met, it may not acquire or retain an equity partnership or other ownership interest in such private funds except for certain limited investments. A banking entity that sponsors or invests in certain private funds is also restricted from providing credit or other support to the fund or permitting the fund to use the name of the bank. The rule requires large banking entities, including the Corporation, to implement a detailed compliance program and, on an annual basis, requires the Chief Executive Officer of the banking entity to attest that the compliance program is reasonably designed to achieve compliance with the rule. Northern Trust is reviewing its activities affected by the final Volcker rule regulations and is taking steps to bring those activities into conformity with the Volcker rule. Northern Trust also is in the process of establishing the necessary compliance programs to comply with the final Volcker rule regulations. The impact of the Volcker rule on Northern Trust will ultimately depend on the interpretation and implementation by the regulatory agencies responsible for its oversight.

Swaps and Other Derivatives. Title VII of the Dodd-Frank Act (Title VII) imposes a new regulatory structure on the over-the-counter derivatives market, including requirements for clearing, exchange trading, capital, margin, reporting, and recordkeeping. In addition, certain swaps and other derivatives activities are required to be pushed out of insured depository institutions and conducted in separately capitalized non-bank affiliates. Title VII also will require certain persons to register as a major swap participant, a swap dealer, a major-security-based swap participant or a security-based swap dealer. The CFTC and SEC have finalized joint rules further defining these entities, and the CFTC, SEC and other U.S. regulators are in the process of adopting regulations to implement Title VII. The CFTC has also finalized many rules applicable to swap dealers and other swap market participants including business conduct standards for swap dealers, reporting and recordkeeping, mandatory central clearing for certain swaps, exchange-trading rules applicable to swaps, and regulatory requirements for cross-border swap activities. The SEC has finalized rules that, among other things, enhance the oversight of clearing and trading

entities; require regulatory reporting of security-based swap information and the public dissemination of security-based swap transaction, volume, and pricing information by registered swap data repositories; and define the scope of swap data repository registration requirements and certain regulatory requirements for cross-border swap activities. It is anticipated that the SEC will continue with its rulemaking process, which will further clarify, among other things, recordkeeping obligations, the scope of security-based swap dealer and major-security-based swap participant registration requirements, central clearing requirements, and exchange-traded requirements for security-based swaps. The CFTC and SEC have yet to complete the implementation of Title VII, and the complete regulatory framework for swaps and security-based swaps continues to develop.

Incentive Compensation Arrangements. The Dodd-Frank Act requires federal regulators to prescribe regulations or guidelines regarding incentive-based compensation practices at certain large financial institutions. No final rule has been issued to date.

HOLDING COMPANY SUPPORT AND CROSS-GUARANTEES UNDER THE FDIA

Under the Federal Deposit Insurance Act (FDIA), when two or more insured depository institutions are under common control, each of those depository institutions may be liable for any loss incurred, or expected to be incurred, by the FDIC in connection with the default of any of the others. Each also may be liable for any assistance the FDIC provides to the other institutions. Default means the appointment of a conservator or receiver for the institution. This cross-guarantee liability for a loss at a commonly controlled institution would be subordinated in right of payment to deposit liabilities, secured obligations, any other general or senior liability, and any obligation subordinated to depositors or other general creditors, other than obligations owed to any affiliate of the depository institution (with certain exceptions).

The Dodd-Frank Act amends the FDIA to obligate the Federal Reserve Board to require bank holding companies, such as the Corporation, to serve as a source of financial strength for any subsidiary depository institution. The term source of financial strength is defined as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress at such subsidiaries. Under this requirement, the Corporation in the future could be required to provide financial assistance to the Bank should the Bank experience financial distress.

PAYMENT OF DIVIDENDS

The Corporation is a legal entity separate and distinct from its subsidiaries. The Corporation may pay dividends, repurchase stock, and make other capital distributions only in accordance with a capital plan that has been reviewed by the Federal Reserve Board and as to which the Federal Reserve Board has not objected. A significant source of funds for the Corporation is dividends from the Bank. As a result, the Corporation s ability to pay dividends on its common stock will depend on the ability of the Bank to pay dividends to the Corporation in amounts sufficient to service its obligations. Dividend payments from the Bank are subject to Illinois law and to regulatory limitations, generally based on capital levels and current and retained earnings, imposed by various regulatory agencies with authority over the Bank. The ability of the Bank to pay dividends is also subject to regulatory restrictions if paying dividends would impair its profitability, financial condition or cash flow requirements.

Various federal and state statutory provisions limit the amount of dividends the Bank can pay to the Corporation without regulatory approval. Approval of the Federal Reserve Board is required for payment of any dividend by a state-chartered bank that is a member of the Federal Reserve System if the total of all dividends declared by the bank in any calendar year would exceed the total of its retained net income (as defined by regulatory agencies) for that year combined with its retained net income for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its undivided profits, as defined, without regulatory and stockholder approval.

The Bank is also prohibited under federal law from paying any dividends if the Bank is undercapitalized or if the payment of the dividends would cause the Bank to become undercapitalized. In addition, the federal regulatory agencies are authorized to prohibit a bank or bank holding company from engaging in an unsafe or unsound banking practice. The payment of dividends could, depending on the financial condition of the Bank, be deemed to constitute an unsafe or unsound practice. The Dodd-Frank Act and Basel III (as defined and discussed further below) impose additional restrictions on the ability of banking institutions to pay dividends.

CAPITAL PLANNING AND STRESS TESTING

The Corporation s capital distributions are subject to Federal Reserve Board oversight. The major component of that oversight is the Federal Reserve Board s Comprehensive Capital Analysis and Review (CCAR) exercise, implementing its capital plan rules. These rules require bank holding companies having $50 billion or more in total consolidated assets (including the Corporation) to submit annual capital plans to their respective Federal Reserve Bank. The Corporation also is required to collect and report certain related data on a quarterly basis to allow the Federal Reserve Board to monitor progress against the annual capital plans. The Corporation and other affected bank holding companies may pay dividends, repurchase stock, and make other capital distributions only in accordance with a capital plan that has been reviewed by the Federal Reserve Board and as to which the Federal Reserve Board has not objected. The Federal Reserve Board may object to a capital plan if the plan does not show that the covered bank holding company will meet, for each quarter throughout the nine-quarter planning horizon covered by the capital plan, all minimum regulatory capital ratios under applicable capital rules as in effect for that quarter, as well as all minimum regulatory capital ratios and a Tier 1 common to risk-weighted assets ratio of at least 5% calculated under general risk-based capital rules as currently in effect, in each case on a pro forma basis under the base case and stressful scenarios (including a severely adverse scenario provided by the Federal Reserve Board). The capital plan rules also stipulate that a covered bank holding company may not make a capital distribution, unless after giving effect to the distribution, it will meet all minimum regulatory capital ratios and maintain a Tier 1 common to risk-weighted assets ratio of at least 5%.

The purpose of CCAR is to ensure that these bank holding companies have robust, forward-looking capital planning processes that account for their unique risks and that permit continued operations during times of economic and financial stress. The CCAR rule, consistent with prior Federal Reserve Board guidance, provides that capital plans contemplating dividend payout ratios exceeding 30% of projected after-tax net income will receive particularly close scrutiny. The Corporation s common stock dividend payout ratio was 39.2% in 2014.

The Corporation submitted its capital plan to the Federal Reserve Board in January 2014 as part of the Federal Reserve Board s 2014 CCAR exercise, and the Federal Reserve Board did not object to the Corporation s plan. In January 2015, the Corporation submitted its 2015 capital plan to the Federal Reserve Board. The Federal Reserve Board has indicated that it expects to publish either its objection or non-objection to the 2015 capital plan and proposed capital actions, such as dividend payments and share repurchases, on March 11, 2015. The Corporation anticipates announcing its proposed 2015 capital plan distributions shortly thereafter.

In addition to the CCAR stress testing requirements, Federal Reserve Board regulations also include the new Dodd-Frank Act stress tests (DFAST). The CCAR and DFAST requirements substantially overlap, and the Federal Reserve Board implements them at the bank holding company level on a coordinated basis. Under the DFAST regulations, the Corporation is required to undergo regulatory stress tests conducted by the Federal Reserve Board annually, and to conduct internal stress tests pursuant to regulatory requirements semi-annually. The Bank also is required to conduct its own annual internal stress test (although it is permitted to combine certain reporting and disclosure of its stress test results with the results of the Corporation). These requirements involve both company-run and supervisory-run testing of capital under various scenarios, including baseline, adverse and severely adverse scenarios provided by the appropriate banking regulator. Results from the Corporation s and the Bank s annual company-run stress tests are reported to the appropriate regulators and published. Northern Trust published the results of its company-run stress tests on March 20, 2014, and the results of its company-run mid-cycle stress tests on September 17, 2014.

CAPITAL ADEQUACY REQUIREMENTS

The regulators view capital levels as important indicators of an institution s financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies (including the Bank and the Corporation) are required to maintain minimum capital relative to the amount and types of assets they hold. The final supervisory determination on an institution s capital adequacy is based on the regulator s assessment of numerous factors.

The Federal Reserve Board has established risk-based and leverage capital guidelines for bank holding companies, including the Corporation. As of January 1, 2015, the risk-based capital guidelines that apply to the Corporation and the Bank are based upon the 2011 capital accord of the International Basel Committee on Banking Supervision (Basel Committee), a committee of

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central banks and bank supervisors, as implemented by the Federal Reserve Board (Basel III). The Basel III rules are currently being phased in, and will come into full effect by January 1, 2022.

The federal banking regulators also have established risk-based and leverage capital guidelines that FDIC-insured depository institutions, such as the Bank, are required to meet. These regulations are generally similar to those established by the Federal Reserve Board for bank holding companies. The Bank s risk-based and leverage capital ratios remained strong at December 31, 2014 and were well above the minimum regulatory requirements established by U.S. banking regulators.

Under the final Basel III rules, the Corporation is one of a small number of core banking organizations. The rules require core banking organizations to have rigorous processes for assessing overall capital adequacy in relation to their total risk profiles, and to publicly disclose certain information about their risk profiles and capital adequacy. In order to implement the capital rules, a core banking organization, such as the Corporation, is required to satisfactorily complete a parallel run, in which it calculates capital requirements under both the Basel III rules and previously effective regulations. On February 21, 2014, the Corporation was notified by the Federal Reserve Board that both the Corporation and the Bank would be permitted to exit parallel run. Accordingly, the Corporation and the Bank were required to use the advanced approaches methodologies to calculate and disclose publicly their risk-based capital ratios beginning with the second quarter of 2014.

Pursuant to the Federal Reserve Board s implementation in the final Basel III rules of a provision of the Dodd-Frank Act, the Corporation is subject to a capital floor that is based on the Basel III standardized approach. The Corporation is therefore required to calculate its risk-based capital ratios under both the standardized and advanced approaches, and is subject to the more stringent of the risk-based capital ratios as calculated under the standardized approach and the advanced approach in the assessment of its capital adequacy under the prompt corrective action framework (described further below).

The risk-based and leverage capital ratios for the Corporation and the Bank, together with the regulatory minimum ratios and the ratios required for classification as well-capitalized, are provided in the following chart.

TABLE 1: RISK-BASED AND LEVERAGE CAPITAL RATIOS AS OF DECEMBER 31, 2014

	COMMON EQUITY TIER 1 CAPITAL		TIER 1 CAPITAL		TOTAL CAPITAL		LEVERAGE RATIO
	ADVANCED APPROACH	STANDARDIZED APPROACH	ADVANCED APPROACH	STANDARDIZED APPROACH	ADVANCED APPROACH	STANDARDIZED APPROACH	
Northern Trust Corporation	12.4%	12.5%	13.2%	13.3%	15.0%	15.5%	7.8%
The Northern Trust Company	12.00%	11.8%	12.0%	11.8%	13.8%	14.0%	6.9%
Minimum required ratio[1]	4.0%	4.0%	5.5%	5.5%	8.0%	8.0%	4.0%
Well-capitalized minimum ratio[2]	N/A	N/A	6.0%	6.0%	10.0%	10.0%	5.0%

(1) Effective January 1, 2015, the applicable minimum common equity Tier 1 capital, Tier 1 capital, and Total capital ratios are 4.5%, 6.0% and 8%, respectively.

(2) Effective January 1, 2015, the applicable minimum common equity Tier 1 capital, Tier 1 capital, and Total capital ratios to be considered well-capitalized are 6.5%, 8.0% and 10.0%, respectively.

In addition to the above, beginning in 2018, advanced approaches institutions, such as the Corporation, must comply with a supplementary leverage ratio, which the Federal Reserve Board finalized in 2014. Under the supplementary leverage ratio rule, advanced approaches institutions will be subject to a minimum supplementary leverage ratio of 3.0%. Insured depository institution subsidiaries of advanced approaches institutions, such as the Bank, will be required to maintain at least a 3.0% supplementary leverage ratio to be considered well-capitalized under the rule. The supplementary leverage ratio differs from the leverage ratio in that the leverage ratio does not take into account certain off-balance-sheet assets and exposures that are reflected in the supplementary leverage ratio.

Basel III also introduced a capital conservation buffer, requiring banking organizations to hold a buffer of common equity Tier 1 capital above the minimum risk-based capital requirements in an amount ranging from at least 0.625% in 2016 to at least 2.5% in 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking organizations with a common equity Tier 1 ratio above the minimum but below the conservation buffer may face constraints on dividends, equity repurchases and compensation based on the amount of such shortfall. Basel III also introduced a countercyclical buffer of 0% to 2.5% of a banking organization s total risk-weighted assets for advanced approaches banking organizations, such as the Corporation, which is intended to create a capital buffer for such banking organizations during expansionary economic phases in order to protect against declines in asset prices if credit conditions weaken. In general, the

amount of the countercyclical capital buffer is a weighted average of the countercyclical capital buffer established in the various jurisdictions in which the banking organization has credit exposures.

The U.S. s implementation of Basel III has increased the minimum capital thresholds for banking organizations and tightened the standards for what qualifies as capital. However, the Corporation and the Bank believe their capital strength, balance sheets and business models leave them well positioned for the continued U.S. implementation of Basel III.

LIQUIDITY STANDARDS

In addition to capital adequacy standards, Basel III introduced two quantitative liquidity standards: a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). The LCR is intended to promote the short-term resilience of the liquidity risk profile of covered banking organizations, improve the banking industry s ability to absorb shocks arising from financial and economic stress, and improve the measurement and management of liquidity risk. In September 2014, the U.S. banking agencies finalized rules to implement the LCR in the United States for large banking organizations, such as the Corporation and the Bank. Among other things, the finalized LCR rules require covered banking organizations, which include the Corporation and the Bank, to maintain an amount of high-quality liquid assets (HQLAs) equal to or greater than 100% of the banking organization s total net cash outflows over a thirty-calendar-day standardized supervisory liquidity stress scenario. The LCR will be phased in, beginning on January 1, 2015, at 80%, with full implementation beginning on January 1, 2017. Beginning with January 2015, Northern Trust is required to calculate its LCR on a monthly basis. Daily calculation of the LCR will be required beginning with July 2016. The NSFR requires banking organizations to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities. More specifically, the NSFR requires that the ratio of available stable funding relative to the amount of required stable funding be equal to at least 100% on an ongoing basis. The Basel Committee finalized its NSFR rules in October 2014 as a minimum standard by January 1, 2018. The Federal Reserve Board has not yet issued a proposal to implement the NSFR.

In March 2014, the Federal Reserve Board issued enhanced prudential standards which specify certain liquidity risk management practices to be followed by covered large U.S. banks and bank holding companies, including the Corporation and the Bank, effective January 1, 2015. These practices include an independent review of liquidity risk management and the establishment of cash flow projections, a contingency funding plan, and liquidity risk limits. The Board of Directors also is required to establish and maintain a liquidity buffer of unencumbered HQLAs based on the results of internal liquidity stress testing. This liquidity buffer must be tailored to Northern Trust s business risks and is in addition to other liquidity requirements, such as the LCR and NSFR discussed above. The enhanced prudential standards also establish requirements and responsibilities for the Board of Directors and its Business Risk Committee with respect to liquidity risk management. The enhanced prudential standards require Northern Trust to engage in liquidity stress testing under multiple stress scenarios and time horizons tailored to its specific products and risk profile. In January 2015, the Board of Directors approved a new Liquidity Management Policy establishing the principles and guidelines for the Corporation to govern the processes and activities for the management of its liquidity position. Among other matters, this Policy includes limits and thresholds related to the enhanced prudential standards liquidity buffer and the LCR.

PROMPT CORRECTIVE ACTION

The FDIC Improvement Act of 1991 requires the appropriate federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards. While these regulations apply only to banks, such as the Bank, the Federal Reserve Board is authorized to take appropriate action against a parent bank holding company, such as the Corporation, based on the under-capitalized status of any banking subsidiary. In certain instances, the Corporation would be required to guarantee the performance of the capital restoration plan for its under-capitalized banking subsidiary.

As noted above, in December 2011, the Federal Reserve Board issued proposed rules to implement requirements in Section 165 and 166 of the Dodd-Frank Act to establish stricter prudential standards for U.S. bank holding companies with total consolidated assets of $50 billion or more. The proposed rule incorporates the Section 166 early remediation requirements. Similar to prompt corrective action, the early remediation requirements would require firms subject to the proposal to take increasingly stringent corrective measures as the firm s financial condition deteriorates. No final rule

implementing Section 166 has been issued to date and the final rules implementing Section 165 indicate that the Federal Reserve Board is continuing to consider the comments it received to the proposal.

RESTRICTIONS ON TRANSACTIONS WITH AFFILIATES AND INSIDERS

The Corporation s bank subsidiaries are subject to restrictions, which govern transactions between FDIC-insured banks and any affiliated entity, whether that entity is the bank s parent holding company, a holding company affiliate of the bank or a subsidiary of the bank. Regulation W restrictions apply to certain covered transactions, including extensions of credit, issuance of guarantees, investments or asset purchases. In general, these restrictions require that any extensions of credit must be fully secured with qualifying collateral and are limited, as to any one of the Corporation or such non-bank affiliates, to 10% of the lending bank s capital stock and surplus, and, as to the Corporation and all such non-bank affiliates in the aggregate, to 20% of such lending bank s capital stock and surplus. These restrictions are also applied to transactions between banks and their financial subsidiaries. Furthermore, these transactions must be on terms and conditions that are, or in good faith would be, offered to nonaffiliated companies (i.e., at arm s length).

The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Sections 23A and 23B of the Federal Reserve Act, including an expansion of the definition of covered transactions to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements, and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. The definition of affiliate was expanded to include any investment fund to which the Corporation or an affiliate serves as an investment adviser. The ability of the Federal Reserve Board to grant exemptions from these restrictions was also narrowed, including by requiring coordination with other bank regulators. In addition, the provision in Section 23A that had permitted a bank to engage in covered transactions with a financial subsidiary of the bank in an amount greater than 10% (but less than 20%) of the bank s capital and surplus has been eliminated.

The restrictions on loans to directors, executive officers, principal stockholders and their related interests (collectively referred to herein as insiders) contained in the Federal Reserve Act and Regulation O apply to all federally insured institutions. These restrictions include, among others, limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans (including credit exposures related to derivatives, repurchase agreements and securities lending arrangements) to insiders and their related interests. These loans cannot exceed the institution s total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions. The Dodd-Frank Act enhanced these restrictions and also imposed restrictions on the purchase or sale of assets between banking institutions and insiders.

ANTI-MONEY LAUNDERING, ANTI-TERRORISM LEGISLATION, AND OFFICE OF FOREIGN ASSETS CONTROL

The Corporation and certain of its subsidiaries are subject to the Bank Secrecy Act of 1970, as amended by the USA PATRIOT Act of 2001, which contains anti-money laundering (AML) and financial transparency provisions and requires implementation of regulations applicable to financial services companies, including standards for verifying client identification and monitoring client transactions and detecting and reporting suspicious activities. AML laws outside the U.S. contain similar requirements. The Corporation and its subsidiaries have implemented policies, procedures and internal controls that are designed to comply with all applicable AML laws and regulations. Compliance with applicable AML and related requirements is a common area of review for financial regulators, and the Corporation s and its subsidiaries level of compliance with these requirements could result in fines, penalties, lawsuits, regulatory sanctions or difficulties in obtaining approvals, restrictions on their business activities or harm to their reputation.

The U.S. Department of the Treasury s Office of Foreign Assets Control (OFAC) is responsible for requiring that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If the Corporation or the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Corporation or the Bank must freeze or block such account or transaction, file a suspicious activity report and notify the appropriate authorities.

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Many other countries have imposed similar laws and regulations that apply to the Corporation s non-U.S. offices. The Corporation has established policies and procedures to comply with these laws and the related regulations in all relevant jurisdictions.

DEPOSIT INSURANCE AND ASSESSMENTS

The Bank accepts deposits, and those deposits have the benefit of FDIC insurance up to the applicable limit. The current limit for FDIC insurance for deposit accounts is $250,000 for each depositor account. Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the insured depository institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a bank s federal regulatory agency. The FDIC s deposit insurance fund is funded by assessments on insured depository institutions. As required by the Dodd-Frank Act, the FDIC issued a final rule in February 2011 that changed the assessment base from insured deposits to average consolidated total assets less average tangible equity, and changed the assessment rate calculation effective on April 1, 2011. Under the final rule, the FDIC concluded that certain liquid assets could be excluded from the deposit insurance assessment base of custody banks that satisfy certain institutional eligibility criteria. This has the effect of reducing the amount of deposit insurance fund insurance premiums due from custody banks.

MONEY MARKET MUTUAL FUNDS

On July 23, 2014, the SEC approved final rules implementing money market mutual fund reform, which, among other things, require institutional prime money market funds to maintain a floating net asset value and implement procedures that may restrict redemption in certain circumstances through the imposition of liquidity fees and gates against investor redemptions. The implementation of these rules will occur in phases from July 2015 through October 2016. Money market mutual fund reforms also have been proposed by the European Union as part of its approach to addressing shadow banking. The timing and content of the final EU regulation is uncertain at this time. On January 29, 2014, the EU published a legislative proposal aimed at increasing the transparency of certain transactions in the shadow banking sector which includes provisions for enhanced transparency and reporting of securities financing transactions.

COMMUNITY REINVESTMENT ACT

The Bank is subject to the Community Reinvestment Act (CRA). The CRA and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service areas, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank s record in meeting the needs of its service area when considering applications to establish branches, merger applications, and applications to acquire the assets and assume the liabilities of another bank. Federal banking agencies are required to make public the rating of a bank s performance under the CRA. In October 2012, the Federal Reserve Board, the federal regulator responsible for monitoring the Bank s CRA compliance, approved the designation of the Bank as a wholesale bank. As a result of this designation, the Bank fulfills its CRA obligations by making qualified investments for the purposes of community development, rather than retail CRA loans. The Bank received an outstanding CRA rating from the Federal Reserve Board in its most recent CRA examination.

PRIVACY AND SECURITY

Federal law establishes a minimum federal standard of financial privacy by, among other provisions, requiring financial institutions to adopt and disclose privacy policies with respect to consumer information and setting forth certain limitations on disclosure to third parties of consumer information. The Corporation has adopted and disseminated its privacy policies pursuant to law. Regulations adopted under the federal law set standards for protecting the security, confidentiality and integrity of client information, and require notice to regulators, and in some cases, to clients, in the event of security breaches. A number of states and the EU have adopted their own statutes concerning financial privacy and security and requiring notification of security breaches.

CONSUMER LAWS AND REGULATIONS

The Corporation s banking subsidiaries are subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with clients and monitor account activity when taking deposits, making loans to or engaging in other types of transactions with such clients. Failure to comply with these laws and regulations could lead to substantial penalties, operating restrictions and reputational damage to the financial institution. The Dodd-Frank Act established an independent Consumer Financial Protection Bureau (CFPB) within the Federal Reserve System. The CFPB was tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The creation of the CFPB by the Dodd-Frank Act is likely to lead to enhanced and strengthened enforcement of consumer financial protection laws.

NON-U.S. REGULATION

Northern Trust s non-U.S. branches and subsidiaries are subject to the laws and regulatory authorities of the jurisdictions in which they operate. For example, branches and subsidiaries conducting banking, fund administration and asset servicing businesses in the United Kingdom are authorized to do so pursuant to the UK Financial Services and Markets Act 2000 or are otherwise subject to regulation by the Prudential Regulation Authority (PRA) and/or the Financial Conduct Authority (FCA). The PRA and FCA exercise broad supervisory and disciplinary powers that include the power to revoke temporarily or permanently authorization to conduct a regulated business upon breach of the relevant regulations, suspend registered employees, and impose censures and fines on both regulated businesses and their regulated employees.

Northern Trust s European branches and subsidiaries are subject to the laws and regulatory authorities of the European Economic Area (EEA). Moreover, Northern Trust s non-European branches and subsidiaries conducting financial services activities also may be within the scope of these laws, given the increasing extraterritorial effect of European legislation. The Alternative Investment Fund Managers Directive (AIFMD) and its implementing legislation, which came into force on July 22, 2013, imposed new regulatory requirements on alternative investment fund managers that are located or market fund interests in the EEA. AIFMD establishes an EEA-wide framework for regulating, monitoring and supervising risks posed by alternative investment fund managers and the alternative investment funds they manage and introduces new requirements for firms acting as a depositary for an alternative investment fund. The European Market Infrastructure Regulation (EMIR), which began to be phased in March 2013, imposes a large number of requirements on the trading of over-the-counter (OTC) derivatives by or with an EEA counterparty and OTC derivatives that otherwise have an EEA nexus. In August 2014, the European Union published a directive, referred to as UCITS V, on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities. UCITS V will become effective in March 2016. Although secondary legislation setting out technical details with respect to UCITS V remains in the process of being drafted, ultimately UCITS V will introduce rules for the depositary, rules on remuneration policies for certain staff and a sanctions regime for noncompliance.

A number of other new regulations that may affect Northern Trust s operations have recently been or are currently being implemented in Europe, including the Capital Requirements Directive IV, referred to as CRD IV, and the Bank Recovery and Resolution Directive. The EU and some member states also are considering bank structural reform. On January 29, 2014, the EU published a proposal that would prohibit proprietary trading by in-scope banking groups and potentially require that trading activities only be carried out by a trading entity legally, economically and operationally separate from the deposit-taking entities within the banking group. Northern Trust is working diligently to comply with AIFMD, EMIR, UCITS V, and other EU rules and regulations, and is also monitoring the development of EU proposals that might create challenges or opportunities for it.

Additionally, the Bank s and the Corporation s subsidiary banks located outside the U.S. are subject to regulatory capital requirements in the jurisdictions in which they operate. As of December 31, 2014, each of our non-U.S. banking subsidiaries had capital ratios above their specified minimum requirements.

STAFF

Northern Trust employed approximately 15,400 full-time equivalent staff members as of December 31, 2014.

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AVAILABLE INFORMATION

Through the Corporation s website at www.northerntrust.com, it makes available free of charge its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all other reports and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), as soon as reasonably practicable after it files such material with, or furnishes such material to, the SEC. The contents of the Corporation s website, the website of the SEC or any other website referenced herein are not a part of this Annual Report on Form 10-K.

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following statistical disclosures, included in the Supplemental Item Selected Statistical and Supplemental Financial Data section of this Annual Report on Form 10-K, are incorporated herein by reference.

Average Consolidated Balance Sheet with Analysis of Net Interest Income for the years ended December 31, 2014, 2013 and 2012.
Changes in Net Interest Income for the years ended December 31, 2014, and 2013.
Remaining Maturity and Average Yield of Securities Held to Maturity and Available for Sale as of December 31, 2014.
Remaining Maturity of Selected Loans and Leases as of December 31, 2014.
Distribution of Non-U.S. Loans by Type as of December 31, 2014, 2013, 2012, 2011 and 2010.
Allowance for Credit Losses Related to Non-U.S. Operations for the years ended December 31, 2014, 2013, 2012, 2011 and 2010.
Analysis of Allowance for Credit Losses for the years ended December 31, 2014, 2013, 2012, 2011 and 2010.
Average Deposits by Type as of December 31, 2014, 2013 and 2012.
Distribution of Non-U.S. Deposits by Type as of December 31, 2014, 2013 and 2012.
Remaining Maturity of Time Deposits $100,000 or More as of December 31, 2014.
Average Rates Paid on Interest-Related Deposits by Type for the years ended December 31, 2014, 2013 and 2012.
Information about Short-Term Borrowings as of December 31, 2014, 2013 and 2012 and for the years then ended.
Selected Average Assets and Liabilities Attributable to Non-U.S. Operations for the years ended December 31, 2014, 2013 and 2012.
Percent of Non-U.S.-Related Average Assets and Liabilities to Total Consolidated Average Assets for the three years ended December 31, 2014, 2013 and 2012.
Non-U.S. Outstandings as of December 31, 2014, 2013 and 2012.

The following statistical disclosures, included under Items 6, 7 and 8 of this Annual Report on Form 10-K, are incorporated herein by reference.

Item 6, Selected Financial Data includes the Corporation s consolidated return on average common equity, return on average assets, dividend payout ratio and ratio of average equity to average assets.
The Securities Held to Maturity and Available for Sale table (Item 7) provides the book values of investments in obligations of the U.S. government, states and political subdivisions, and other held to maturity and available for sale securities as of December 31, 2014, 2013 and 2012.
The Composition of Loan Portfolio table (Item 7) provides loans and leases by type at the end of the year.
The Nonperforming Assets table (Item 7) provides information about the Corporation s nonaccrual, past due and restructured loans receivable.
The Commercial Real Estate Loans table (Item 7) provides details of loan concentrations.
The Allocation of the Allowance for Credit Losses table (Item 7) provides a breakdown of the allowance for credit losses by loan class and illustrates the proportion of each loan class to total loans.
The Provision and Allowance for Credit Losses section (Item 7) provides a discussion of the factors which influenced management s judgment in determining the provision for credit losses.
Note 6, Loans and Leases (Item 8) provides the Corporation s forgone interest income on nonaccrual loans, as well as a description of the nature of non-U.S. loans.

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Note 1, Summary of Significant Accounting Policies (Item 8) provides a discussion of Northern Trust s policy for placing loans on non-accrual status.

Further discussion of Northern Trust s management of credit risk with respect to the provision and allowance for credit losses are provided in the following information that is incorporated herein by reference to the notes to the consolidated financial statements provided in Item 8, Financial Statements and Supplementary Data:

- Note 1, Summary of Significant Accounting Policies :
  - H. Loans and Leases
  - I. Allowance for Credit Losses
  - L. Other Real Estate Owned
- Note 6, Loans and Leases
- Note 7, Allowance for Credit Losses
- Note 8, Concentrations of Credit Risk
- Note 27, Off-Balance Sheet Financial Instruments

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ITEM 1A RISK FACTORS

In the normal course of our business activities, we are exposed to a variety of risks. The following discussion sets forth the risk factors that we have identified as being most significant to Northern Trust. Although we discuss these risk factors primarily in the context of their potential effects on our business, financial condition or results of operations, you should understand that these effects can have further negative implications such as: reducing the price of our common stock and other securities; reducing our capital, which can have regulatory and other consequences; affecting the confidence that clients and counterparties have in us, with a resulting negative effect on our ability to conduct and grow our businesses; and reducing the attractiveness of our securities to rating agencies and potential purchasers, which may affect adversely our ability to raise capital and secure other funding or the prices at which we are able to do so. Further, additional risks beyond those discussed below, elsewhere in this Annual Report on Form 10-K or in other of our reports filed with, or furnished to, the SEC also could adversely affect us. We cannot assure you that the risk factors herein or elsewhere in our other reports address all potential risks that we may face.

These risk factors also serve to describe factors which may cause our results to differ materially from those described in forward-looking statements included herein or in other documents or statements that make reference to this Annual Report on Form 10-K. Forward-looking statements and other factors that may affect future results are discussed under Forward-Looking Statements included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

Market Risks

A downturn in economic conditions, such as the global financial crisis of 2007 08 and resultant economic turmoil, may negatively affect our earnings.

Our principal operational focus is on fee-based business, which is distinct from commercial banking institutions that earn most of their revenues from loans and other traditional interest-generating products and services. Fees for many of our products and services are based on the volume of transactions processed, the market value of assets under management or custody, securities lending volume and spreads, and fees for other services rendered, all of which may be negatively impacted by a downturn in economic conditions. For example, downturns in equity markets and decreases in the value of debt-related investments as a result of market disruption, illiquidity or other factors have historically reduced the valuations of the assets we manage or service for others, which generally reduced our earnings. Weak economic conditions also affect wealth creation, investment preferences, trading activities and savings patterns, which impact demand for our trust and investment products and services. Reduced transaction volumes would also generally negatively impact our earnings. Economic weakness may also affect the ability of borrowers to repay loans, causing credit quality to deteriorate and resulting in increased cost of credit, a higher level of charge-offs and higher provision for credit losses, all of which would reduce our earnings.

Changes in interest rates can negatively affect our earnings.

The direction and level of interest rates are important factors in our earnings. Rates that remain persistently low may reduce our net interest margin, which is the difference between what we earn on our assets and the interest rates we pay for deposits and other sources of funding. A low interest rate environment can also reduce fees earned on certain of our products. For example, since 2009, we have waived certain fees associated with money market mutual funds due to the low level of short-term interest rates. Lower net interest margins and fee waivers negatively impact our earnings. Please see Market Risk in the Risk Management section included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K, for a more detailed discussion of interest rate and market risks we face.

Changes in the monetary and other policies of the various regulatory authorities or central banks of the United States, non-U.S. governments and international agencies may reduce our earnings and negatively affect our growth prospects.

The monetary and other policies of U.S. and international governments, agencies and regulatory bodies have a significant impact on interest rates and overall financial market performance. For example, the Federal Reserve Board regulates the supply of money and credit in the United

States, and its policies determine in large part the level of interest rates and our cost of funds

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for lending and investing, which are important factors in our earnings. The actions of the Federal Reserve Board or other regulatory authorities also may reduce the value of financial instruments we hold. Further, their policies can affect our borrowers by increasing interest rates or making sources of funding less available, which may increase the risk that borrowers fail to repay their loans from us. Changes in monetary and other governmental policies are beyond our control and can be difficult to predict, and we cannot determine the ultimate effect that any such changes would have upon our business, financial condition or results of operations.

Uncertainty about the financial stability of several countries in the EU, the risk that those countries may default on their sovereign debt and related stresses on financial markets could have a significant adverse effect on our earnings.

There remain ongoing concerns about the ability of certain European countries to finance their deficits and service their debt burdens. Risks and ongoing concerns about the financial stability of these countries could have a detrimental impact on the continued global economic recovery, sovereign and nonsovereign debt in these countries and the financial condition of European financial institutions. European market and economic disruptions have affected, and may continue to affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices. Continuing economic challenges in Europe, including negative interest rates in some jurisdictions, and related disruptions may negatively impact our earnings.

Declines in the value of securities held in our investment portfolio can negatively affect our earnings.

Our investment securities portfolio represents a greater proportion, and our loan and lease portfolios represents a smaller proportion, of our total consolidated assets in comparison to many other financial institutions. The value of securities available for sale and held to maturity within our investment portfolio, which is generally determined based upon market values available from third-party sources, may fluctuate as a result of market volatility and economic or financial market conditions. For example, the global financial crisis of 2007 08 and resultant period of economic turmoil and financial market disruption negatively affected the liquidity and pricing of securities, generally, and asset-backed and auction rate securities, in particular. To the extent that any portion of the unrealized losses in our portfolio of investment securities results from declines in securities values that management determines to be other than temporary, the book value of those securities will be adjusted to their estimated recovery value and we will recognize a charge to earnings in the quarter during which we make that determination.

Volatility levels and fluctuations in foreign currency exchange rates may affect our earnings.

We provide foreign exchange services to our clients, primarily in connection with our global custody business. Foreign currency volatility influences our foreign exchange trading income as does the level of client activity. Foreign currency volatility and changes in client activity may result in reduced foreign exchange trading income.

We also are exposed to non-trading foreign currency risk as a result of our holdings of non-U.S. dollar denominated assets and liabilities, investment in non-U.S. subsidiaries, and future non-U.S. dollar denominated revenue and expense. Fluctuations in exchange rates may raise the potential for losses resulting from foreign currency trading positions, where aggregate obligations to purchase and sell a currency other than the U.S. dollar do not offset each other or offset each other in different time periods.

We have policies and procedures in place to assess and mitigate potential impacts of foreign exchange risks, including hedging-related strategies. Any Failure or circumvention of our procedures to mitigate risk may negatively impact earnings. Please see Market Risk in the Risk Management section included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K, for a more detailed discussion of market risks we face.

Changes in a number of particular market conditions can negatively affect our earnings.

In past periods, reductions in the volatility of currency-trading markets, the level of cross-border investing activity, and the demand for borrowing securities or willingness to lend such securities have negatively affected our earnings from activities such as foreign exchange trading and securities lending. If these conditions occur in the future, our earnings from these activities

may be negatively affected. In a few of our businesses, such as securities lending, our fee is calculated as a percentage of our client s earnings, such that market and other factors that reduce our clients earnings from investments or trading activities also reduce our revenues. For example, the global financial crisis of 2007-08 and resultant period of economic turmoil and financial market disruption produced losses in some securities lending programs, reduced borrower demand and led some clients to withdraw from these programs. A return of these conditions in the future could result in additional withdrawals and decreased activity, which could negatively impact our earnings.

Operational Risks

Many types of operational risks can negatively affect our earnings.

We regularly assess and monitor operational risk in our businesses. Despite our efforts to assess and monitor operational risk, our risk management program may not be effective in all cases. Factors that can impact operations and expose us to risks varying in size, scale and scope include:

- human errors or omissions, including failures to comply with applicable laws or corporate policies and procedures;
- theft, fraud or misappropriation of assets, whether arising from the intentional actions of internal personnel or external third parties;
- defects or interruptions in computer or communications systems;
- breakdowns in processes, over-reliance on manual processes, which are inherently more prone to error than automated processes, breakdowns in internal controls or failures of the technology and facilities that support our operations;
- unsuccessful or difficult implementation of computer systems upgrades;
- defects in product design or delivery;
- difficulty in accurately pricing assets, which can be aggravated by increased asset coverage, market volatility and illiquidity, and lack of reliable pricing from vendors;
- negative developments in relationships with key counterparties, vendors, employees or associates in our day-to-day operations; and
- external events that are wholly or partially beyond our control, such as natural disasters, epidemics, computer viruses, geopolitical events, political unrest or acts of terrorism.

While we have in place many controls and business continuity plans designed to address many of these factors, these plans may not operate successfully to mitigate effectively these risks. If they do not, such factors may have a negative impact on our business, financial condition or results of operations. In addition, an important aspect of managing our operational risk is creating a risk culture in which all employees fully understand that there is risk in every aspect of our business and the importance of managing risk as it relates to their job functions. We continue to enhance our risk management program to support our risk culture, ensuring that it is sustainable and appropriate to our role as a major financial institution. Nonetheless, if we fail to create the appropriate environment that sensitizes all of our employees to managing risk, our business could be adversely impacted.

The systems and models we employ to analyze, monitor and mitigate risks, as well as for other business purposes, are inherently limited, may be not be effective in all cases and, in any case, cannot eliminate all risks that we face.

We use various systems and models in analyzing and monitoring several risk categories, as well as for other business purposes. However, these systems and models are inherently limited because they involve techniques and judgments that cannot anticipate every economic and financial outcome in the markets in which we operate, nor can they anticipate the specifics and timing of such outcomes. Further, these systems and models may fail to accurately quantify the magnitude of the risks we face. Our measurement methodologies rely on many assumptions and historical analyses and correlations. These assumptions may be incorrect, and the historical correlations on which we rely may not continue to be relevant. Consequently, the measurements that we make may not adequately capture or express the true risk profiles of our businesses or provide accurate data for other business purposes, each of which could ultimately have a negative impact on our business, financial condition and results of operations. Errors in the underlying model or model assumptions, or inadequate model assumptions, could result in unanticipated and adverse consequences.

Errors, breakdowns in controls or other mistakes in the provision of services to clients or in carrying out transactions for our own account can subject us to liability, result in losses or negatively affect our earnings in other ways.

In our asset servicing, investment management, fiduciary administration and other business activities, we effect or process transactions for clients and for us that involve very large amounts of money. Failure to properly manage or mitigate operational risks can have adverse consequences, and increased volatility in the financial markets may increase the magnitude of resulting losses. Given the high volume of transactions we process, errors that affect earnings may be repeated or compounded before they are discovered and corrected.

Our dependence on technology exposes us to risks that also can result in losses.

Our businesses depend on information technology infrastructure, both internal and external, to, among other things, record and process a large volume of increasingly complex transactions and other data, in many currencies, on a daily basis, across numerous and diverse markets and jurisdictions. Due to our dependence on technology and the important role it plays in our business operations, we must constantly improve and update our information technology infrastructure. Updating these systems can require significant resources and often involves implementation, integration and security risks that could cause financial, reputational and operational harm. Failure to ensure adequate review and consideration of critical business changes prior to and during the introduction and deployment of key technological systems or failure to adequately align evolving client commitments and expectations with operational capabilities may have a negative impact on our results of operations. The failure to upgrade systems as necessary to support growth and changing business needs also could have a material adverse effect on our operations.

Breaches of our security measures may result in losses.

Any failure, interruption or breach in the security of our systems could severely disrupt our operations. Our systems involve the use of clients and our proprietary information, and security breaches including cyber-attacks could expose us to a risk of loss of this information. Our security measures may be breached due to the actions of outside parties, employee error, malfeasance or otherwise, and, as a result, an unauthorized party may obtain access to our or our clients proprietary information. Information security risks for large financial institutions like us are significant in part because of the proliferation of new technologies to conduct financial transactions and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Our computer, communications, data processing, networks, backup, business continuity or other operating, information or technology systems, including those that we outsource to other providers, may fail to operate properly or become disabled, overloaded or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, which could adversely affect our ability to appropriately conduct our business activities.

The third parties with which we do business also are susceptible to the foregoing risks (including regarding the third parties with which they are similarly interconnected or on which they otherwise rely), and our or their business operations and activities may therefore be adversely affected, perhaps materially, by failures, terminations, errors or malfeasance by, or attacks or constraints on, one or more financial, technology, infrastructure or government institutions or intermediaries with whom we or they are interconnected or conduct business.

In recent years, several financial services firms suffered successful cyber-attacks launched both domestically and from abroad, resulting in the disruption of services to clients, loss or misappropriation of sensitive or private data, and reputational harm. Although we have not suffered a material breach of our systems, it is possible that we could suffer such a breach in the future. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We expect to continue to face increasing cyber threats, including computer viruses, malicious code, distributed denial of service attacks, phishing attacks, information security breaches or employee or contractor error or malfeasance that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our, our clients or other parties confidential, personal, proprietary or other information or otherwise disrupt, compromise or damage our or our clients or other parties business assets, operations and activities. If an actual or perceived breach of our

security occurs, the market perception of the effectiveness of our security measures could be harmed, our reputation could suffer and we could lose clients.

Our reputation and business may be harmed and we may be subject to legal claims if there is loss or disclosure of our or our clients information.

The secure maintenance and transmission of client information is a critical element of our operations. Our information technology and other systems that maintain and transmit client information, or those of service providers or business partners, may be impacted by advertent or inadvertent actions or inactions by our employees, or those of a third-party service provider or business partner or by a security breach. As a result, our clients information may be lost, disclosed, accessed or taken without the clients consent. Any such loss, disclosure or access to clients information can result in legal claims or legal proceedings, including regulatory investigations and actions, may have a serious impact on our reputation and may adversely affect our business, financial condition and results of operations.

Inability of our internal controls to keep pace with our expansion may result in losses.

In recent years, we have expanded our geographic footprint, product pipeline and client types. A failure to put controls in place to mitigate new risks associated with this expansion may disrupt our operations, resulting in losses.

A failure or circumvention of our controls and procedures could have a material adverse effect on our business, financial condition and results of operations.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, financial condition and results of operations. If we identify material weaknesses in our internal control over financial reporting or are otherwise required to restate our financial statements, we could be required to implement other expensive and time-consuming remedial measures and could lose investor confidence in the accuracy and completeness of our financial reports. In addition, there are risks that individuals, either employees or contractors, consciously circumvent established control mechanisms by, for example, exceeding trading or investment management limitations, or committing fraud.

Failure of any of our third-party vendors to perform can result in losses.

Third-party vendors provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, and network access. While we have established risk management processes and continuity plans, any disruptions in service from a key vendor for any reason or poor performance of services could negatively affect our ability to deliver products and services to our clients and conduct our business. Replacing these third-party vendors or performing the tasks they perform for ourselves could also create significant delay and expense.

We are subject to certain risks inherent in operating globally which may adversely affect our business.

In conducting our business, we are subject to risks of loss from various unfavorable political, economic, legal or other developments, including social or political instability, changes in governmental policies or policies of central banks, expropriation, nationalization, confiscation of assets, price controls, capital controls, exchange controls, unfavorable tax rates and tax court rulings and changes in laws and regulations. Less mature and often less regulated business and investment environments heighten these risks in various emerging markets, in which we have been expanding our business activities. Our non-U.S. operations accounted for 31% of our revenue in 2014. Our non-U.S. businesses are subject to extensive regulation by various non-U.S. regulators, including governments, securities exchanges, central banks and other regulatory bodies in

the jurisdictions in which those businesses operate. In many countries, the laws and regulations applicable to the financial services industry are uncertain and evolving and may be applied with extra scrutiny to foreign companies. Further, it may be difficult for us to determine the exact requirements of local laws in every market or manage our relationships with multiple regulators in

various jurisdictions. Our inability to remain in compliance with local laws in a particular market and manage our relationships with regulators could have an adverse effect not only on our businesses in that market but also on our reputation generally. The failure to properly mitigate such risks or the failure of our operating infrastructure to support such international activities could result in operational failures and regulatory fines or sanctions, which could adversely affect our business and results of operations.

We actively strive to optimize our geographic footprint. This optimization may occur by establishing operations in lower-cost locations or by outsourcing to vendors in various jurisdictions. These efforts expose us to the risk that we may not maintain service quality, control or effective management within these operations. In addition, we are exposed to the relevant macroeconomic, political and similar risks generally involved in doing business in those jurisdictions. The increased elements of risk that arise from conducting certain operating processes in some jurisdictions could lead to an increase in reputational risk. During periods of transition, greater operational risk and client concern exist with respect to maintaining a high level of service delivery.

In addition, we are subject in our global operations to rules and regulations relating to corrupt and illegal payments and money laundering, as well as laws relating to doing business with certain individuals, groups and countries, such as the U.S. Foreign Corrupt Practices Act, the USA PATRIOT Act, and the UK Bribery Act. While we have invested and continue to invest significant resources in training and in compliance monitoring, the geographical diversity of our operations, employees, clients and customers, as well as the vendors and other third parties that we deal with, presents the risk that we may be found in violation of such rules, regulations or laws and any such violation could subject us to significant penalties or adversely affect our reputation.

Failure to adequately control our costs could negatively affect our earnings.

Our success in controlling the costs and expenses of our business operations also impacts operating results. Through various parts of our business strategy, including innovation, we aim to produce efficiencies in operations that help reduce and control costs and expenses, including the costs of losses associated with operating risks attributable to servicing and managing financial assets. Failure to control these and other costs could negatively affect our earnings.

Acts of terrorism, natural disasters, pandemics and global conflicts may have a negative impact on our business and operations.

Acts of terrorism, natural disasters, pandemics, global conflicts or other similar catastrophic events could have a negative impact on our business and operations. While we have in place business continuity plans, such events could still damage our facilities, disrupt or delay the normal operations of our business (including communications and technology), result in harm or cause travel limitations on our employees, and have a similar impact on our clients, suppliers and counterparties. These events could also negatively impact the purchase of our products and services to the extent that those acts or conflicts result in reduced capital markets activity, lower asset price levels, or disruptions in general economic activity in the United States or abroad, or in financial market settlement functions. In addition, war, terror attacks, political unrest, global conflicts, the national and global efforts to combat terrorism and other potential military activities and outbreaks of hostilities may negatively impact economic growth, which could have an adverse effect on our business and operations, and may have other adverse effects on us in ways that we are unable to predict.

Credit Risks

Failure to evaluate accurately the prospects for repayment when we extend credit or maintain an adequate allowance for credit losses can result in losses or the need to make additional provisions for credit losses, both of which reduce our earnings.

We evaluate extensions of credit before we make them and then provide for credit risks based on our assessment of the credit losses inherent in our loan portfolio, including undrawn credit commitments. This process requires us to make difficult and complex judgments. Challenges associated with our credit risk assessments include identifying the proper factors to be used in assessment and accurately estimating the impacts of those factors. Allowances that prove to be inadequate may require us to realize increased provisions for credit losses or write down the value of certain assets on our balance sheet, which in turn would directly and negatively affect earnings.

Weakened economic conditions can result in losses or the need for additional provisions for credit losses, both of which reduce our earnings.

Credit risk levels and our earnings can also be affected by weakness in the economy in general and in the particular locales in which we extend credit, a deterioration in credit quality or a reduced demand for credit. Adverse changes in the financial performance or condition of our borrowers resulting from weakened economic conditions could impact the borrowers abilities to repay outstanding loans, which could in turn negatively impact our financial condition and results of earnings.

The failure or instability of any of our significant counterparties could expose us to loss.

The financial markets are characterized by extensive interconnections among financial institutions, including banks, broker/dealers, collective investment funds and insurance companies. As a result of these interconnections, we and many of our clients have counterparty exposure to other financial institutions. This counterparty exposure presents risks to us and to our clients because the failure or perceived weakness of any of our counterparties has the potential to expose us to risk of loss. Instability in the financial markets has resulted historically in some financial institutions becoming less creditworthy. During such periods of instability, we are exposed to increased counterparty risks, both as principal and in our capacity as agent for our clients. Changes in market perception of the financial strength of particular financial institutions can occur rapidly, are often based upon a variety of factors and can be difficult to predict. In addition, the criteria for and manner of governmental support of financial institutions and other economically important sectors remain uncertain. In recent years the consolidation of financial service firms and the failures of other financial institutions have increased the concentration of our counterparty risk. We are not able to mitigate all of our and our clients counterparty credit risk. If a significant individual counterparty defaults on an obligation to us, we could incur financial losses that materially adversely affect our business, our financial condition and our results of operations.

Liquidity Risks

If the Bank is unable to supply the Corporation with funds over time, the Corporation could be unable to meet its various obligations.

The Corporation is a legal entity separate and distinct from the Bank and the Corporation s other subsidiaries. The Corporation relies on dividends paid to it by the Bank to meet its obligations and to pay dividends to stockholders of the Corporation. There are various legal limitations on the extent to which the Bank and the Corporation s other subsidiaries can supply funds to the Corporation by dividend or otherwise. Dividend payments by the Bank to the Corporation in the future will require continued generation of earnings by the Bank and could require regulatory approval under certain circumstances. For more information on dividend restrictions, see Supervision and Regulation Payment of Dividends in Item 1, Business.

We may need to raise additional capital in the future, which may not be available to us or may only be available on unfavorable terms.

We may need to raise additional capital to provide sufficient resources to meet our business needs and commitments, to accommodate the transaction and cash management needs of our clients, to maintain our credit ratings in response to regulatory changes, including capital rules, or for other purposes. However, our ability to access the capital markets, if needed, will depend on a number of factors, including the state of the financial markets. Rising interest rates, disruptions in financial markets, negative perceptions of our business or our financial strength, or other factors may impact our ability to raise additional capital, if needed, on terms acceptable to us. Any diminished ability to raise additional capital, if needed, could subject us to liability, restrict our ability to grow, require us to take actions that would negatively affect our earnings or otherwise adversely affect our business and our ability to implement our business plan, capital plan and strategic goals.

Any downgrades in our credit ratings, or an actual or perceived reduction in our financial strength, could adversely affect our borrowing costs, capital costs and liquidity.

Rating agencies publish credit ratings and outlooks on our creditworthiness and that of our obligations or securities, including long-term debt, short-term borrowings, preferred stock and other securities. Our credit ratings are subject to ongoing review by the ratings agencies and thus may change from time to time based on a number of factors, including our own financial strength, performance, prospects and operations as well as factors not under our control, such as ratings agency-specific criteria or frameworks for our industry or certain security types, which are subject to revision from time to time, and conditions affecting the financial services industry generally.

Downgrades in our credit ratings may adversely affect our borrowing costs, our capital costs and our ability to raise capital and, in turn, our liquidity. A failure to maintain an acceptable credit rating may also preclude us from being competitive in certain products. Additionally, our counterparties, as well as our clients, rely on our financial strength and stability and evaluate the risks of doing business with us. If we experience diminished financial strength or stability, actual or perceived, a decline in our stock price or a reduced credit rating, our counterparties may be less willing to enter into transactions, secured or unsecured, with us, our clients may reduce or place limits on the level of services we provide them or seek other service providers, or our prospective clients may select other service providers, all of which may have other adverse effects on our business.

The risk that we may be perceived as less creditworthy relative to other market participants is higher in a market environment, in which the consolidation, and in some instances failure, of financial institutions, including major global financial institutions, could result in a smaller number of larger counterparties and competitors. If our counterparties perceive us to be a less viable counterparty, our ability to enter into financial transactions on terms acceptable to us or our clients, on our or our clients behalf, will be materially compromised. If our clients reduce their deposits with us or select other service providers for all or a portion of the services we provide to them, our revenues will decrease accordingly.

Our success with large, complex clients requires substantial liquidity.

A significant portion of our business involves providing certain services to large, complex clients, which, by their nature, require substantial liquidity. Our failure to successfully manage the liquidity and balance sheet issues attendant to this portion of our business may have a negative impact on our ability to meet client needs and grow.

Regulatory and Legal Risks

Failure to comply with regulations can result in penalties and regulatory constraints that restrict our ability to grow or even conduct our business, or that reduce earnings.

Virtually every aspect of our business around the world is regulated, generally by governmental agencies that have broad supervisory powers and the ability to impose sanctions. In the United States, the Corporation, the Bank and many of the Corporation s other subsidiaries are heavily regulated by bank regulatory agencies at the federal and state levels. These regulations cover a variety of matters ranging from required capital levels to prohibited activities. They are specifically directed at protecting depositors, the federal deposit insurance fund and the banking system as a whole, not our security holders. The Corporation and its subsidiaries are also heavily regulated by bank, securities and other regulators globally. Regulatory violations or the failure to meet formal or informal commitments made to regulators could generate penalties, require corrective actions that increase costs of conducting business, result in limitations on our ability to conduct business, restrict our ability to expand or adversely impact our reputation. Failure to obtain necessary approvals from regulatory agencies on a timely basis could adversely affect proposed business opportunities and results of operations. Similarly, failure to comply with new requirements or with future changes in laws or regulations may negatively impact our results of operations and financial condition.

The ongoing implementation of the Dodd-Frank Act may have a material effect on our operations.

The Dodd-Frank Act, which was signed into law on July 21, 2010, made a number of significant regulatory and compliance changes. There remains uncertainty surrounding the manner in which certain of the provisions of the Dodd-Frank Act will be implemented by the various

regulatory agencies as some provisions still require final rules to be promulgated. Further changes

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resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

Changes in regulatory capital requirements could result in reduced earnings.

The Dodd-Frank Act and the implementation of Basel III have led to significantly higher capital requirements, higher capital charges and more restrictive leverage and liquidity ratios, and could impact the capital allocations to various business activities. The ultimate impact of the evolving capital and liquidity standards on us will depend on a number of factors, including the interpretation and implementation of capital and leverage requirements by the U.S. banking regulators. Increased capital requirements could ultimately impact the profitability of certain of our business activities, require changes to certain business practices or otherwise adversely affect our business and earnings. See Supervision and Regulation under Item 1, Business for a further discussion of the various capital and liquidity requirements to which we are, and in the future may be, subject.

The implementation of money market mutual fund reform could lower the desirability of money market mutual funds for investors and reduce the profitability of money market mutual funds for sponsors.

On July 23, 2014, the SEC approved final rules implementing money market mutual fund reform, which, among other things, require institutional prime money market funds to maintain a floating net asset value and implement procedures that may restrict redemption in certain circumstances through the imposition of liquidity fees and gates against investor redemptions. The implementation of these rules could lower the desirability of money market mutual funds for investors, reduce the profitability of our money market mutual fund products or otherwise adversely affect our business, earnings, or financial condition. The implementation of these rules will occur in phases from July 2015 through October 2016.

Further intervention of the U.S. and other governments in the financial services industry may heighten the challenges we face and make compliance with the evolving laws and regulations applicable to banks and other financial services companies more difficult and costly.

In recent years various regulatory bodies have demonstrated heightened enforcement scrutiny through many regulatory initiatives, including anti-money-laundering rules, anti-bribery laws, home mortgage lending and loan-modification requirements. These and other regulatory requirements have increased compliance costs and regulatory risks and may lead to financial and reputational damage in the event of a violation. While we have programs in place, including policies, training and various forms of monitoring, designed to ensure compliance with legislative and regulatory requirements, these programs and policies may not always protect us from conduct by individual employees. Governments may take further actions to significantly change the way financial institutions are regulated, either through new legislation, new regulations, new applications of existing regulations or a combination of all of these methods. These actions may involve increased intervention by such governments and regulators in the normal operation of our businesses and the businesses of our competitors in the financial services industry, and would likely involve additional legislative and regulatory requirements imposed on banks and other financial services companies. Such actions could increase compliance costs and regulatory risks, lead to financial and reputational damage in the event of a violation, affect our ability to compete successfully, and also may impact the nature and level of competition in the industry in unpredictable ways. The full scope and impact of possible enhanced regulatory and enforcement scrutiny and evolving legislation and regulation is uncertain and difficult to predict.

Our business may be adversely impacted by litigation and regulatory enforcement.

Our businesses involve the risk that clients or others may sue us, claiming that we have failed to perform under a contract or otherwise failed to carry out a duty perceived to be owed to them. Our trust, custody and investment management businesses are particularly subject to this risk. This risk may be heightened during periods when credit, equity or other financial markets are deteriorating in value or are particularly volatile, or when clients or investors are experiencing losses. In addition, as a publicly-held company, we are subject to the risk of claims under the federal securities laws, and volatility in our stock price and those of other financial institutions increases this risk. Actions brought against us may result in injunctions, settlements,

damages, fines or penalties, which could have a material adverse effect on our financial condition or results of operations or require changes to our business. Even if we defend ourselves successfully, the cost of litigation is often substantial, and public reports regarding claims made against us may cause damage to our reputation among existing and prospective clients or negatively impact the confidence of counterparties, rating agencies and stockholders, consequently negatively affecting our earnings.

In the ordinary course of our business, we also are subject to various regulatory, governmental and enforcement inquiries, investigations and subpoenas. These may be directed generally to participants in the businesses in which we are involved or may be specifically directed at us. In enforcement matters, claims for disgorgement, the imposition of civil and criminal penalties and the imposition of other remedial sanctions are possible.

We may fail to set aside adequate reserves or otherwise underestimate our liability, with a negative effect on our earnings.

We estimate our potential liability for pending and threatened claims, and record reserves when appropriate pursuant to GAAP, by evaluating the facts of particular claims under current judicial decisions and legislative and regulatory interpretations. This process is inherently subject to risk, including the risks that a judge or jury could decide a case contrary to our evaluation of the law or the facts or that a court could change or modify existing law on a particular issue important to the case. Our earnings will be adversely affected to the extent that our reserves are not adequate.

If we fail to comply with legal standards, we could incur liability to our clients or lose clients, which could negatively affect our earnings.

Managing or servicing assets with reasonable prudence in accordance with the terms of governing documents and applicable laws is important to client satisfaction, which in turn is important to the earnings and growth of our investment businesses. Failure to comply with these standards, adequately manage these risks or manage the differing interests often involved in the exercise of fiduciary responsibilities could also result in liability.

Strategic Risks

If we do not successfully execute strategic plans, we will not grow as we have planned and our earnings growth will be negatively impacted.

Our growth depends upon successful, consistent execution of our business strategies. A failure to execute these strategies will negatively impact growth. A failure to grow organically or to successfully integrate an acquisition could have an adverse effect on our business. The challenges arising from generating organic growth or the integration of an acquired business may include preserving valuable relationships with employees, clients, suppliers and other business partners, delivering enhanced products and services, as well as combining accounting, data processing and internal control systems.

Competition for our employees is intense, and we may not be able to attract and retain key personnel.

Our success depends, in large part, on our ability to attract new employees, retain and motivate our existing employees, and continue to compensate our employees competitively. Competition for the best employees in most activities in which we engage can be intense, and there can be no assurance that we will be successful in our efforts to recruit and retain key personnel. Factors that affect our ability to attract and retain talented and diverse employees include our compensation and benefits programs, our profitability and our reputation for rewarding and promoting qualified employees. Our ability to attract and retain key executives and other employees may be hindered as a result of existing and potential regulations applicable to incentive compensation and other aspects of our compensation programs. These regulations may not apply to some of our competitors and to other institutions with which we compete for talent. The unexpected loss of services of key personnel, both in businesses and corporate functions, could have a material adverse impact on our business because of their skills, knowledge of our markets, operations and clients, years of industry experience and, in some cases, the difficulty of promptly finding qualified replacement personnel. Similarly, the loss of key employees, either individually or as a group, could adversely affect our clients perception of our abilities.

We are subject to intense competition in all aspects of our businesses, which could negatively affect our ability to maintain satisfactory prices and grow our earnings.

We provide a broad range of financial products and services in highly competitive markets. We compete against large, in some cases well-capitalized, and geographically diverse, companies that are capable of offering a wide array of financial products and services at competitive prices. In certain businesses, such as foreign exchange trading, electronic networks present a competitive challenge. Additionally, technological advances and the growth of internet-based commerce have made it possible for other types of institutions to offer a variety of products and services competitive with certain areas of our business. Many of these nontraditional service providers have fewer regulatory constraints and some have lower cost structures. These competitive pressures may negatively affect earnings and our ability to grow. Furthermore, pricing pressures, as a result of the willingness of competitors to offer comparable or improved products or services at a lower price, may result in a reduction in the price we can charge for our products and services, which could negatively affect our ability to maintain or increase our profitability.

Damage to our reputation could have a direct and negative effect on our ability to compete, grow and generate revenue.

Damage to our reputation for delivery of a high level of service undermines the confidence of clients and prospects in our ability to serve them and therefore could negatively affect our earnings. Damage to our reputation also could affect the confidence of rating agencies, regulators, stockholders and other parties in a wide range of transactions that are important to our business. Failure to maintain our reputation would ultimately have an adverse effect on our ability to manage our balance sheet or grow our business. The global financial crisis of 2007-08 and current political and public sentiment regarding financial institutions have resulted in a significant amount of adverse media coverage of financial institutions. Actions by the financial services industry generally or by other members of or individuals in the financial services industry could also negatively impact our reputation.

We need to constantly invest in innovation, and the inability or failure to do so may negatively affect our businesses and earnings.

Our success in the competitive environment in which we operate requires consistent investment of capital and human resources in innovation. This investment is directed at generating new products and services, and adapting existing products and services to the evolving standards and demands of the marketplace. Among other things, investing in innovation helps us maintain a mix of products and services that keeps pace with our competitors and achieve acceptable margins. This investment also focuses on enhancing the delivery of our products and services in order to compete successfully for new clients or gain additional business from existing clients, and includes investment in technological innovation as well. Effectively identifying gaps or weaknesses in our product offerings also is important. Falling behind our competition in any of these areas could adversely affect our business opportunities, growth and earnings. There are substantial risks and uncertainties associated with innovation efforts. We must invest significant time and resources in developing and marketing new products and services, and expected timetables for the introduction and development of new products or services may not be achieved and price and profitability targets may not be met. Further, our revenues and costs may fluctuate because new products and services generally require start-up costs while revenues take time to develop or may not develop at all.

Failure to understand or fully appreciate the risks associated with development or delivery of new product and service offerings will negatively affect our businesses and earnings.

Our success in capitalizing on innovation depends, in part, on successful implementation of new product and service initiatives. Not only must we keep pace with competitors in the development of these new offerings, but we must accurately price them (as well as existing products) on a risk-adjusted basis and effectively deliver them to clients. Our identification of risks arising from new products and services, both in their design and implementation, and effective responses to those identified risks, including pricing, is key to our capitalizing on innovation and investment in new product and service offerings.

Our success with large, complex clients requires an understanding of the market and legal, regulatory and accounting standards in various jurisdictions.

A significant portion of our business involves providing certain services to large, complex clients which require an understanding of the market and legal, regulatory and accounting standards in various jurisdictions. Any failure to understand and deal with those appropriately could affect our growth prospects or negatively affect our reputation. We identify and manage risk through our business strategies and plans and our risk management practices and controls. If we fail to successfully identify and manage significant risks, we could incur financial loss, suffer damage to our reputation that could restrict our ability to grow or conduct business profitably, or become subject to regulatory penalties or constraints that could limit some of our activities or make them significantly more expensive. In addition, our businesses and the markets in which we operate are continuously evolving. We may fail to fully understand the implications of changes in our businesses or the financial markets or fail to adequately or timely enhance our risk framework to address those changes. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets, regulatory requirements, our businesses, our counterparties, clients or service providers or for other reasons, we could incur losses, suffer reputational damage or find ourselves out of compliance with applicable regulatory or contractual mandates or expectations. These risks are magnified as client requirements become more complex and as our increasingly global business requires end-to-end management of operational and other processes across multiple time zones and many inter-related products and services.

Failure to produce adequate and competitive returns can negatively affect our earnings and growth prospects.

We derive a significant portion of our revenues from our investment management, fiduciary and asset-servicing businesses. If we do not generate competitive risk-adjusted returns that satisfy clients in a variety of asset classes, we will have greater difficulty maintaining existing business and attracting new business, which would negatively affect our earnings.

We may take actions to maintain client satisfaction that result in losses or reduced earnings.

We may take action or incur expenses in order to maintain client satisfaction or preserve the usefulness of investments or investment vehicles we manage in light of changes in security ratings, liquidity or valuation issues or other developments, even though we are not required to do so by law or the terms of governing instruments. The risk that we will decide to take actions to maintain client satisfaction that result in losses or reduced earnings is greater in periods when credit or equity markets are deteriorating in value or are particularly volatile and liquidity in markets is disrupted.

Other Risks

Changes in tax laws and interpretations and tax challenges may negatively affect our earnings.

Both U.S. and non-U.S. tax authorities from time to time issue new, or modify existing, tax laws and regulations. These authorities may also issue new, or modify existing, interpretations of those laws and regulations. These new laws, regulations or interpretations, and our actions taken in response to, or reliance upon, such changes in the tax laws may impact our tax position in a manner that results in lower earnings.

In the course of our business, we are sometimes subject to challenges from U.S. and non-U.S. tax authorities regarding the amount of taxes due. These challenges may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions, all of which may require a greater provision for taxes or otherwise negatively affect earnings.

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Changes in accounting standards may be difficult to predict and could have a material impact on our consolidated financial statements.

New accounting standards, or changes to existing accounting standards, resulting both from initiatives of the Financial Accounting Standards Board or its convergence efforts with the International Accounting Standards Board, as well as changes in the interpretation of existing accounting standards by the Financial Accounting Standards Board, the SEC or bank regulatory agencies, or otherwise reflected in GAAP, potentially could have a material impact on our financial condition and results of operations. These changes are difficult to predict and in some cases we could be required to apply a new or revised standard retroactively, resulting in the revised treatment of certain transactions or activities, or even the restatement of consolidated financial statements for prior periods.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

The executive offices of the Corporation and the Bank are located at 50 South La Salle Street in Chicago. This Bank-owned building is occupied by various divisions of Northern Trust s businesses. Adjacent to this building are two office buildings in which the Bank leases space principally for corporate support functions. Financial services are provided by the Bank and other subsidiaries of the Corporation through a network of offices in 19 U.S. states, Washington D.C., and 20 international locations. The majority of those offices are leased. The Bank s primary U.S. operations are located in four facilities: a leased facility at 801 South Canal Street in Chicago; a subleased facility at 231 South La Salle Street in Chicago; and two Bank-owned supplementary operations/data center buildings located in the western suburbs of Chicago. A majority of the Bank s London-based staff is located at a leased facility at Canary Wharf in London. Additional support and operations activity originates from two leased facilities in Bangalore. The Bank and the Corporation s other subsidiaries operate from various other facilities in North America, Europe, the Asia Pacific region, and the Middle East, most of which are leased.

The Corporation believes that its owned and leased facilities are suitable and adequate for its business needs. For additional information relating to properties and lease commitments, refer to Note 9 Buildings and Equipment and Note 10 Lease Commitments included under Item 8 of this Annual Report on Form 10-K and which information is incorporated herein by reference.

ITEM 3 LEGAL PROCEEDINGS

The information presented under the caption Legal Proceedings in Note 24 Contingent Liabilities included under Item 8 of this Annual Report on Form 10-K is incorporated herein by reference.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

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SUPPLEMENTAL ITEM EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information with regard to each executive officer of the Corporation.

Frederick H. Waddell Mr. Waddell, age 61, joined Northern Trust in 1975 and has served as Chairman of the Board of Directors since 2009 and Chief Executive Officer since 2008. Mr. Waddell served as President from 2006 to 2011, Chief Operating Officer from 2006 to 2008, and Executive Vice President and President of Corporate & Institutional Services from 2003 to 2006. Prior to that, Mr. Waddell held leadership positions in commercial banking, strategic planning and Wealth Management. Mr. Waddell serves as a director of AbbVie Inc.

S. Biff Bowman Mr. Bowman, age 51, joined Northern Trust in 1985 and has served as Executive Vice President and Chief Financial Officer since September 2014. Prior to that, Mr. Bowman served as Executive Vice President, Human Resources from 2012 to 2014. From 2010 to 2012, Mr. Bowman was the Head of Americas Region for Corporate & Institutional Services. From 2008 to 2010, he served as the Chief Executive Officer of Europe, Middle East and Africa.

Robert P. Browne Mr. Browne, age 49, joined Northern Trust in 2009 as Executive Vice President and Chief Investment Officer. Before joining Northern Trust, Mr. Browne served as Chief Investment Officer for Fixed Income and Proprietary Investments for ING Investment Management Holdings N.V. from 2004 to 2009.

Peter B. Cherecwich Mr. Cherecwich, age 50, joined Northern Trust in 2007 and has served as Executive Vice President and Head of Global Fund Services since 2010. Mr. Cherecwich also served as Chief Operating Officer of Corporate & Institutional Services from 2008 to September 2014. Prior to that, he served as Head of Institutional Strategy & Product Development from 2007 to 2008. Before joining Northern Trust, Mr. Cherecwich served in several executive and operational roles at State Street Corporation.

Jeffrey D. Cohodes Mr. Cohodes, age 54, joined Northern Trust in 1993 and has served as Executive Vice President and Chief Risk Officer since 2011. Mr. Cohodes served as an Executive Vice President in the Wealth Management business from 2010 to 2011. From 2009 to 2010, he served as the Chief Operating Officer for Asset Management.

Steven L. Fradkin Mr. Fradkin, age 53, joined Northern Trust in 1985 and has served as Executive Vice President and President of Wealth Management since September 2014. Prior to that, Mr. Fradkin served as President of Corporate & Institutional Services from 2009 to 2014. He served as Chief Financial Officer from 2004 to 2009.

Jane B. Karpinski Ms. Karpinski, age 52, joined Northern Trust in 2006 and has served as Senior Vice President and Corporate Controller since 2013. Ms. Karpinski served as International Chief Financial Officer from 2012 to 2013. Prior to that, she served as Chief Financial Officer for the Europe, Middle East and Africa region from 2007 to 2012.

Susan C. Levy Ms. Levy, age 57, joined Northern Trust in May 2014 as Executive Vice President and General Counsel. Before joining Northern Trust, Ms. Levy served as Managing Partner of the law firm Jenner & Block from 2008 to 2014, where she was a partner since 1990.

William L. Morrison Mr. Morrison, age 64, joined Northern Trust in 1996 and has served as President since 2011. Prior to that, Mr. Morrison served as Executive Vice President and Chief Financial Officer from 2009 to 2011. From 2003 to 2009, he served as President of Wealth Management.

Michael G. O Grady Mr. O Grady, age 49, joined Northern Trust in 2011 and has served as Executive Vice President and President of Corporate & Institutional Services since September 2014. Prior to that, Mr. O Grady served as Chief Financial Officer from 2011 to 2014. Before joining Northern Trust, Mr. O Grady served as a Managing Director in Bank of America Merrill Lynch s Investment Banking Group.

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S. Gillian Pembleton Ms. Pembleton, age 56, joined Northern Trust in 1991 and has served as Executive Vice President, Human Resources since September 2014. Prior to that, Ms. Pembleton was responsible for Human Resources and Administration for the Europe, Middle East and Africa region from 2006 to 2014. From 2001 to 2006, she was the Global Head of Staffing and Development.

Stephen N. Potter Mr. Potter, age 58, joined Northern Trust in 1982 and has served as Executive Vice President and President of Asset Management since 2008. Prior to that, Mr. Potter served as the Chief Executive Officer of Europe, Middle East and Africa from 2001 to 2008.

Joyce M. St. Clair Ms. St. Clair, age 55, joined Northern Trust in 1992 and has served as Executive Vice President and President of Enterprise Operations since September 2014. Prior to that, Ms. St. Clair served as President of Operations & Technology from 2011 to 2014. From 2007 to 2011, Ms. St. Clair served as Chief Risk Officer.

Jana R. Schreuder Ms. Schreuder, age 56, joined Northern Trust in 1980 and has served as Executive Vice President and Chief Operating Officer since September 2014. Prior to that, Ms. Schreuder served as President of Wealth Management from 2011 to 2014. She served as Chief Risk Officer from 2005 to 2006 and as President of Operations & Technology from 2006 to 2011.

All officers are appointed annually by the Corporation s Board of Directors (Board). Officers continue to hold office until their successors are duly elected or until their death, resignation or removal by the Board.

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PART II

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the NASDAQ Stock Market LLC under the symbol NTRS. There were 2,213 shareholders of record as of January 31, 2015. The information required by this item concerning the market prices of, and dividends on, our common stock during the past two years is provided under Quarterly Financial Data (Unaudited) included under Supplemental Item Selected Statistical and Supplemental Financial Data, and is incorporated herein by reference.

Information regarding dividend restrictions of the Corporation s banking subsidiaries is incorporated herein by reference to Note 30 Restrictions on Subsidiary Dividends and Loans or Advances to the Notes to Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

The following table shows certain information relating to the Corporation s purchases of common stock for the three months ended December 31, 2014, pursuant to the Corporation s share buyback program:

TABLE 2: PURCHASES OF COMMON STOCK IN THE FOURTH QUARTER OF 2014

PERIOD	TOTAL NUMBER OF SHARES PURCHASED (1)	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED AS PART OF A PUBLICLY ANNOUNCED PLAN (2)	MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER THE PLAN
October 1-31, 2014	397,561	$ 63.67	397,561	9,225,673
November 1-30, 2014	1,831,406	67.02	1,831,406	7,394,267
December 1-31, 2014	256,666	67.80	256,666	7,137,601
Total (Fourth Quarter)	2,485,633	$ 66.57	2,485,633	7,137,601

(1) Includes shares purchased from employees in connection with equity plan transactions such as the surrender of shares to pay an option exercise price or tax withholding.

(2) Includes shares repurchased under the authorization approved by the Corporation s board of directors on April 15, 2014. Under this program, which has no expiration date, the Corporation may repurchase up to 12.0 million shares of the Corporation s common stock.

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COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

The graph below compares the cumulative total stockholder return on the Corporation s common stock to the cumulative total return of the S&P 500 Index and the KBW Bank Index for the five fiscal years which ended December 31, 2014. The cumulative total stockholder return assumes the investment of $100 in the Corporation s common stock and in each index on December 31, 2009 and assumes reinvestment of dividends. The KBW Bank Index is a modified-capitalization-weighted index made up of 24 of the largest banking companies in the United States. The Corporation is included in the S&P 500 Index and the KBW Bank Index.

Total Return Assumes $100 Invested on

December 31, 2009 with Reinvestment of Dividends

Five-Year Cumulative Total Return

	DECEMBER 31,					
	2009	2010	2011	2012	2013	**2014**
Northern Trust	100	108	79	103	130	**144**
S&P 500	100	115	117	136	180	**205**
KBW Bank Index	100	123	95	126	174	**190**

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ITEM 6 SELECTED FINANCIAL DATA

	2014	2013	2012	2011	2010
FOR THE YEAR ENDED DECEMBER 31, CONDENSED INCOME STATEMENT (In Millions)					
Noninterest Income	**$ 3,325.7**	$ 3,156.2	$ 2,905.8	$ 2,760.8	$ 2,729.0
Net Interest Income	**1,005.5**	933.1	990.3	1,009.1	918.7
Total Revenue	**$ 4,331.2**	$ 4,089.3	$ 3,896.1	$ 3,769.9	$ 3,647.7
Provision for Credit Losses	**6.0**	20.0	25.0	55.0	160.0
Noninterest Expense	**3,135.0**	2,993.8	2,878.8	2,831.2	2,497.9
Income before Income Taxes	**$ 1,190.2**	$ 1,075.5	$ 992.3	$ 883.7	$ 989.8
Provision for Income Taxes	**378.4**	344.2	305.0	280.1	320.3
Net Income	**$ 811.8**	$ 731.3	$ 687.3	$ 603.6	$ 669.5
Preferred Stock Dividends	**9.5**				
Net Income Applicable to Common Stock	**$ 802.3**	$ 731.3	$ 687.3	$ 603.6	$ 669.5
PER COMMON SHARE					
Net Income Basic	**$ 3.34**	$ 3.01	$ 2.82	$ 2.47	$ 2.74
Diluted	**3.32**	2.99	2.81	2.47	2.74
Cash Dividends Declared Per Common Share	**1.30**	1.23	1.18	1.12	1.12
Book Value End of Period (EOP)	**34.54**	33.34	31.51	29.53	28.19
Market Price EOP	**67.40**	61.89	50.16	39.66	55.41
SELECTED BALANCE SHEET DATA (In Millions)					
At Year End:					
Earning Assets	**$ 100,889.8**	$ 93,367.2	$ 87,472.7	$ 90,793.6	$ 75,849.9
Total Assets	**109,946.5**	102,947.3	97,463.8	100,223.7	83,843.9
Deposits	**90,757.0**	84,098.1	81,407.8	82,677.5	64,195.7
Senior Notes	**1,497.0**	1,996.6	2,405.8	2,126.7	1,896.1
Long-Term Debt	**1,615.1**	1,709.2	1,421.6	2,133.3	2,729.3
Stockholders Equity	**8,448.9**	7,912.0	7,527.0	7,117.3	6,830.3
Average Balances:					
Earning Assets	**$ 95,947.5**	$ 85,628.3	$ 84,168.5	$ 82,748.8	$ 67,865.4
Total Assets	**104,083.5**	94,857.7	92,975.5	91,947.9	76,008.2
Deposits	**84,656.6**	75,596.3	75,219.8	72,446.4	55,583.1
Senior Notes	**1,661.2**	2,247.0	2,295.2	1,983.3	1,509.0
Long-Term Debt	**1,654.9**	1,211.7	1,634.1	2,446.3	2,821.6
Stockholders Equity	**8,166.5**	7,667.7	7,358.2	7,024.2	6,634.4
CLIENT ASSETS (In Billions)					
Assets Under Custody	**$ 5,968.8**	$ 5,575.7	$ 4,804.9	$ 4,262.8	$ 4,081.3
Assets Under Management	**934.1**	884.5	758.9	662.9	643.6
SELECTED RATIOS AND METRICS					
Financial Ratios and Metrics:					
Return on Average Common Equity	**10.02%**	9.54%	9.34%	8.59%	10.09%
Return on Average Assets	**0.78**	0.77	0.74	0.66	0.88
Dividend Payout Ratio	**39.2**	41.1	42.0	45.4	40.8
Net Interest Margin (*)	**1.08**	1.13	1.22	1.27	1.41
Average Stockholders Equity to Average Assets	**7.8**	8.1	7.9	7.6	8.7

	DECEMBER 31, 2014	DECEMBER 31, 2013[(c)]	DECEMBER 31, 2012[(c)]	DECEMBER 31, 2011[(c)]	DECEMBER 31, 2010[(c)]
Capital Ratios:					

	ADVANCED APPROACH[a]	STANDARDIZED APPROACH[b]				
Common Equity Tier 1	**12.4%**	**12.5%**	12.9%	12.4%	12.1%	13.0%
Tier 1	**13.2**	**13.3**	13.4	12.8	12.5	13.6
Total	**15.0**	**15.5**	15.8	14.3	14.2	15.6
Leverage	**N/A**	**7.8**	7.9	8.2	7.3	8.8

(*) Net interest margin is presented on a fully taxable equivalent (FTE) basis, a non-generally-accepted-accounting-principle (GAAP) financial measure that facilitates the analysis of asset yields. The net interest margin on a GAAP basis and a reconciliation of net interest income on a GAAP basis to net interest income on an FTE basis are presented on page 86.

(a) Effective with the second quarter of 2014, Northern Trust exited its parallel run. Accordingly, the December 31, 2014, ratios are calculated in compliance with the Basel III Advanced Approach final rules released by the Federal Reserve Board 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 December 31, 2014, ratios calculated under the Standardized Approach comply with the final rules released by the Federal Reserve Board on July 2, 2013.

(c) The December 31, 2013, 2012, 2011 and 2010 ratios are calculated in accordance with Basel I requirements.

ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OVERVIEW

Northern Trust Corporation (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 focuses on managing and servicing client assets through its two client-focused reporting segments: Corporate & Institutional Services (C&IS) and Wealth Management. Asset management and related services are provided to C&IS and Wealth Management clients primarily by the Asset Management business.

The Corporation conducts business through various U.S. and non-U.S. subsidiaries, including The Northern Trust Company (Bank). The Corporation was originally formed as a holding company for the Bank in 1971. The Corporation has a network of offices in 19 U.S. states, Washington, D.C., and 20 international locations in North America, Europe, the Middle East, and the Asia-Pacific region. Except where the context otherwise requires, the term Northern Trust refers to Northern Trust Corporation and its subsidiaries on a consolidated basis.

FINANCIAL OVERVIEW

Net income in 2014 totaled $811.8 million, up 11% from $731.3 million in 2013. Earnings per diluted common share totaled $3.32 in 2014 compared to $2.99 in 2013. Return on average common equity improved to 10.0% in 2014, from 9.5% in 2013. Net income in 2014 included pre-tax charges and write-offs totaling $47.5 million and a $9.5 million income tax benefit related to Northern Trust s decision to reinvest the pre-tax earnings of a foreign subsidiary indefinitely outside the U.S. Net income in 2013 included a $32.6 million pre-tax gain on the sale of an office building property, offset by a $19.2 million pre-tax charge in connection with an agreement to resolve certain litigation and a $12.4 million pre-tax write-off of certain fee receivables. Excluding the current-year items, net income, net income per diluted common share and return on average common equity were $833.6 million, $3.41 and 10.3%, respectively. Excluding the prior-year items, net income per diluted common share and return on average common equity were unchanged while net income was $730.7 million.

The 2014 results reflect a continued focus on serving the complex and evolving needs of our clients, while enhancing profitability and returns for our stockholders. Revenue increased 6% to $4.33 billion in 2014 from $4.09 billion in the prior year, driven by a 9% increase in trust, investment and other servicing fees and an 8% increase in net interest income, partially offset by a 14% decline in foreign exchange trading income. Noninterest expense increased 5% to $3.14 billion in 2014 compared to $2.99 billion in 2013, reflecting continued growth in our business, ongoing investment to support technology initiatives, and actions taken during 2014 to realign our organization.

Trust, investment and other servicing fees, which represent the largest component of total revenue, increased 9% to $2.83 billion, from $2.61 billion in 2013, primarily due to new business and the favorable impacts of equity markets and movements in foreign exchange rates, partially offset by higher levels of waived fees in money market mutual funds. Money market mutual fund fee waivers, attributable to persistent low short-term interest rates, totaled $129.8 million in 2014 compared to $108.2 million in 2013.

Foreign exchange trading income of $210.1 million decreased 14% from $244.4 million in 2013, resulting from lower currency market volatility and client volumes.

Higher equity markets and new business in 2014 drove client assets under custody and under management up 7% and 6%, respectively, as compared to the December 31, 2013, levels. Client assets under custody as of December 31, 2014, increased to $6.0 trillion from $5.6 trillion, and included $3.5 trillion of global custody assets, up 6% from 2013. Client assets under management as of December 31, 2014, increased to $934.1 billion from $884.5 billion in 2013.

Reported net interest income of $1.01 billion increased 8%, reflecting higher levels of earnings assets, partially offset by a lower net interest margin.

The provision for credit losses totaled $6.0 million in 2014, compared to $20.0 million in 2013. The current-year provision reflected continued improvement in the credit quality of commercial and institutional and commercial real estate loans, as well as loan growth in 2014. Loans and leases as of December 31, 2014, totaled $31.6 billion, up 8% from $29.4 billion in 2013. Net charge-offs and nonperforming assets decreased in 2014 to $18.0 million and $232.3 million, respectively, from $39.7 million and $274.7 million in 2013.

Total noninterest expense equaled $3.14 billion, up 5% from 2013. Excluding the current-year charges and write-offs of $47.5 million and the prior-year legal settlement charge of $19.2 million, noninterest expense increased 4% in 2014, attributable to increased compensation, equipment and software, outside services and employee benefits expense.

Northern Trust continued to maintain a strong capital position during 2014, with all capital ratios exceeding those required for classification as well-capitalized under federal bank regulatory capital requirements. Total stockholders equity equaled $8.5 billion at year-end, up 7% from $7.9 billion in 2013. On August 5, 2014, Northern Trust issued 16,000 shares of preferred stock for proceeds of $388.5 million, net of underwriting discounts, commissions and other issuance costs. In October 2014, Northern Trust declared dividends totaling $9.5 million to preferred stockholders, payable January 1, 2015, covering the five-month period since issuance on August 5, 2014. During the year ended December 31, 2014, we increased the quarterly common stock dividend to $0.33 per common share and repurchased 7.5 million shares of common stock, returning $792.4 million of capital to common stockholders, compared to $609.2 million in 2013.

CONSOLIDATED RESULTS OF OPERATIONS

REVENUE

Northern Trust generates the majority of its revenue from noninterest income that primarily consists of trust, investment and other servicing fees. Net interest income comprises the remainder of revenue and consists of interest income generated by earning assets, net of interest expense on deposits and borrowed funds.

Revenue in 2014 was $4.33 billion, an increase of 6% from $4.09 billion in 2013. Noninterest income, representing 77% of total revenue in both 2014 and 2013, totaled $3.33 billion and $3.16 billion in 2014 and 2013, respectively, up 5% in 2014.

The current-year increase in noninterest income primarily reflected higher trust, investment and other servicing fees, partially offset by lower foreign exchange trading income. Trust, investment and other servicing fees totaled $2.83 billion in 2014, up $223.0 million, or 9%, from $2.61 billion in 2013, primarily reflecting new business and the favorable impacts of equity markets and movements in foreign exchange rates, partially offset by higher levels of waived fees in money market mutual funds. Foreign exchange trading income in 2014 totaled $210.1 million, down $34.3 million, or 14%, compared with $244.4 million in 2013, reflecting lower currency market volatility and client volumes as compared to 2013.

Net interest income on a fully taxable equivalent (FTE) basis in 2014 was $1.03 billion, an increase of $69.3 million, or 7%, from $965.6 million in 2013, attributable to higher levels of earnings assets, partially offset by a decline in the net interest margin. The net interest margin declined to 1.08% in 2014 from 1.13% in 2013, primarily resulting from lower yields on earning assets, partially offset by a lower cost of interest-related funds. Average earning assets increased $10.3 billion, or 12%, in 2014, reflecting higher levels of Federal Reserve deposits, securities and loans and leases.

Additional information regarding Northern Trust s revenue by type is provided below.

2014 TOTAL REVENUE OF $4.33 BILLION

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Noninterest Income

The components of noninterest income, and a discussion of significant changes during 2014 and 2013, are provided below.

TABLE 3: NONINTEREST INCOME	FOR THE YEAR ENDED DECEMBER 31,			CHANGE	
($ In Millions)	**2014**	2013	2012	**2014 / 2013**	2013 / 2012
Trust, Investment and Other Servicing Fees	**$ 2,832.8**	$ 2,609.8	$ 2,405.5	**9%**	8%
Foreign Exchange Trading Income	**210.1**	244.4	206.1	**(14)**	19
Treasury Management Fees	**66.0**	69.0	67.4	**(4)**	2
Security Commissions and Trading Income	**67.6**	68.0	73.6	**(1)**	(8)
Other Operating Income	**153.5**	166.5	154.9	**(8)**	8
Investment Security Losses, net	**(4.3)**	(1.5)	(1.7)	**181**	(9)
Total Noninterest Income	**$ 3,325.7**	$ 3,156.2	$ 2,905.8	**5%**	9%

Trust, Investment and Other Servicing Fees

Trust, investment and other servicing fees were $2.83 billion in 2014 compared with $2.61 billion in 2013. Trust, investment and other servicing fees are based primarily 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 in arrears. Based on an analysis of historical trends and current asset and product mix, management estimates that a 10% rise or fall in overall equity markets would cause a corresponding increase or decrease in Northern Trust s trust, investment and other servicing fees of approximately 3% and in total revenue of approximately 2%. For a more detailed discussion of 2014 trust, investment and other servicing fees, refer to the Reporting Segments and Related Information section.

The following table presents selected equity market indices and the percentage changes year over year.

TABLE 4: MARKET INDICES	DAILY AVERAGES			YEAR-END		
	2014	2013	**CHANGE**	**2014**	2013	**CHANGE**
S&P 500 ®	**1,931**	1,643	**18%**	**2,059**	1,848	**11%**
MSCI EAFE ® (in U.S. dollars)	**1,888**	1,747	**8**	**1,775**	1,916	**(7)**

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Assets under custody and assets under management form the primary basis of our trust, investment and other servicing fees. At December 31, 2014, assets under custody were $6.0 trillion, up 7% from $5.6 trillion a year ago, and included $3.5 trillion of global custody assets, compared to $3.2 trillion at December 31, 2013. Assets under management totaled $934.1 billion, up 6% from $884.5 billion at the end of 2013.

TABLE 5: ASSETS UNDER CUSTODY	DECEMBER 31,					CHANGE		FIVE-YEAR COMPOUND GROWTH RATE
($ In Billions)	**2014**	2013	2012	2011	2010	**2014 / 2013**	2013 / 2012	
Corporate & Institutional	**$ 5,453.1**	$ 5,079.7	$ 4,358.6	$ 3,877.6	$ 3,711.1	**7%**	17%	**10%**
Wealth Management	**515.7**	496.0	446.3	385.2	370.2	**4**	11	**9**
Total Assets Under Custody	**$ 5,968.8**	$ 5,575.7	$ 4,804.9	$ 4,262.8	$ 4,081.3	**7%**	16%	**10%**

C&IS ASSETS UNDER CUSTODY

(In Billions)

WEALTH MANAGEMENT ASSETS UNDER CUSTODY

(In Billions)

TABLE 6: ASSETS UNDER MANAGEMENT	DECEMBER 31,					CHANGE		FIVE-YEAR COMPOUND GROWTH RATE
($ In Billions)	**2014**	2013	2012	2011	2010	**2014 / 2013**	2013 / 2012	
Corporate & Institutional	**$ 709.6**	$ 662.7	$ 561.2	$ 489.2	$ 489.2	**7%**	18%	**8%**
Wealth Management	**224.5**	221.8	197.7	173.7	154.4	**1**	12	**9**
Total Assets Under Management	**$ 934.1**	$ 884.5	$ 758.9	$ 662.9	$ 643.6	**6%**	17%	**8%**

C&IS ASSETS UNDER MANAGEMENT

(In Billions)

WEALTH MANAGEMENT ASSETS UNDER MANAGEMENT

(In Billions)

Assets under custody and under management were invested as follows:

TABLE 7: ASSETS UNDER CUSTODY BY INVESTMENT TYPE	DECEMBER 31,					
	2014			2013		
	C&IS	**WM**	**CONSOLIDATED**	C&IS	WM	CONSOLIDATED
Equities	**44%**	**55%**	**45%**	46%	55%	47%
Fixed Income Securities	**38**	**22**	**36**	36	22	34
Cash and Other Assets	**18**	**23**	**19**	18	23	19

TABLE 8: ASSETS UNDER MANAGEMENT BY INVESTMENT TYPE	DECEMBER 31,					
	2014			2013		
	C&IS	**WM**	**CONSOLIDATED**	C&IS	WM	CONSOLIDATED
Equities	**54%**	**47%**	**52%**	56%	48%	54%
Fixed Income Securities	**14**	**28**	**17**	13	27	17
Cash and Other Assets	**32**	**25**	**31**	31	25	29

Foreign Exchange Trading Income

Northern Trust provides foreign exchange services in the normal course of business as an integral part of its global custody services. Active management of currency positions, within conservative limits, also contributes to foreign exchange trading income. This income totaled $210.1 million in 2014 compared with $244.4 million last year. The decrease of $34.3 million, or 14%, is attributable to lower currency market volatility and client volumes in 2014.

Treasury Management Fees

Treasury management fees, generated from cash and treasury management products and services provided to clients, totaled $66.0 million, down 4% from $69.0 million in 2013.

Security Commissions and Trading Income

Security commissions and trading income is generated primarily from securities brokerage services provided by Northern Trust Securities, Inc., and totaled $67.6 million in 2014, relatively unchanged from $68.0 million in 2013.

Other Operating Income

The components of other operating income include:

TABLE 9: OTHER OPERATING INCOME	FOR THE YEAR ENDED DECEMBER 31,			CHANGE	
($ In Millions)	**2014**	2013	2012	**2014 / 2013**	2013 / 2012
Loan Service Fees	**$ 62.7**	$ 61.9	$ 64.5	**1%**	(4)%
Banking Service Fees	**49.6**	50.9	55.0	**(3)**	(7)
Other Income	**41.2**	53.7	35.4	**(23)**	52
Total Other Operating Income	**$ 153.5**	$ 166.5	$ 154.9	**(8)%**	8%

The decline in banking service fees in 2014 primarily reflected lower income from standby letters of credit. The other component of other operating income in 2013 included the $32.6 million gain on the sale of an office building property, partially offset by a $12.4 million write-off of certain fee receivables. Excluding these prior-year items, the other component of other operating income increased $7.7 million, or 23%, primarily attributable to increased income from currency-related hedging, lease-related and third party servicing activities in 2014.

Investment Security Gains (Losses), Net

Net investment security losses totaled $4.3 million and $1.5 million in 2014 and 2013, respectively. Results for 2014 include $4.2 million of pre-tax charges for the credit-related other-than-temporary impairment (OTTI) of certain Community Reinvestment Act (CRA) eligible securities held within Northern Trust s balance sheet investment securities portfolio. There were no OTTI losses in 2013.

NONINTEREST INCOME 2013 COMPARED WITH 2012

Trust, investment and other servicing fees were $2.61 billion in 2013, up 8% from $2.41 billion in 2012, primarily attributable to new business and the favorable impact of equity markets, partially offset by higher waived fees in money market mutual funds. Foreign exchange trading income increased 19% in 2013 to $244.4 million from $206.1 million in 2012, reflecting higher client volumes from 2012 levels.

Other operating income totaled $166.5 million in 2013, an increase of 8% from $154.9 million in 2012. Other operating income in 2013 included the $32.6 million gain on the sale of an office building property, partially offset by the $12.4 million fee receivable write-off. Excluding these 2013 items, other operating income decreased 6% from 2012, reflecting lower banking and loan service fees.

Net investment security losses totaled $1.5 million and $1.7 million in 2013 and 2012, respectively. Charges of $3.3 million were recorded in 2012 for the credit-related OTTI of residential mortgage backed securities and auction rate securities held within Northern Trust s balance sheet investment securities portfolio. There were no OTTI losses in 2013.

Net Interest Income

Net interest income stated on an FTE basis is a non-generally-accepted-accounting-principle (GAAP) financial measure that facilitates the analysis of asset yields. Management believes an FTE presentation provides a clearer indication of net interest margins for comparative purposes. When adjusted to an FTE basis, yields on taxable, nontaxable, and partially taxable assets are comparable; however, the adjustment to an FTE basis has no impact on net income. A reconciliation of net interest income on a GAAP basis to net interest income on an FTE basis is provided on page 86.

An analysis of net interest income on an FTE basis, major balance sheet components impacting net interest income, and related ratios are provided below.

TABLE 10: ANALYSIS OF NET INTEREST INCOME (FTE)	FOR THE YEAR ENDED DECEMBER 31,			CHANGE	
($ In Millions)	**2014**	2013	2012	**2014 / 2013**	2013 / 2012
Interest Income GAAP	**$ 1,186.9**	$ 1,155.5	$ 1,287.7	**3%**	(10)%
FTE Adjustment	**29.4**	32.5	40.8	**(9)**	(20)
Interest Income FTE	**1,216.3**	1,188.0	1,328.5	**2**	(11)
Interest Expense	**181.4**	222.4	297.4	**(18)**	(25)
Net Interest Income FTE Adjusted	**1,034.9**	965.6	1,031.1	**7**	(6)
Net Interest Income GAAP	**1,005.5**	933.1	990.3	**8**	(6)
AVERAGE BALANCE					
Earning Assets	**$ 95,947.5**	$ 85,628.3	$ 84,168.5	**12%**	2%

Interest-Related Funds	**73,167.2**	67,364.2	62,293.0	**9**	8
Net Noninterest-Related Funds	**22,780.3**	18,264.1	21,875.5	**25**	(17)
				CHANGE IN PERCENTAGE	
AVERAGE RATE					
Earning Assets	**1.27%**	1.39%	1.58%	**(0.12)**	(0.19)
Interest-Related Funds	**0.25**	0.33	0.48	**(0.08)**	(0.15)
Interest Rate Spread	**1.02**	1.06	1.10	**(0.04)**	(0.04)
Total Source of Funds	**0.19**	0.26	0.35	**(0.07)**	(0.09)
Net Interest Margin FTE	**1.08%**	1.13%	1.22%	**(0.05)**	(0.09)

Refer to pages 160 and 161 for additional analysis of net interest income.

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Net interest income is defined as the total of interest income and amortized fees on earning assets, less interest expense on deposits and borrowed funds, adjusted for the impact of interest-related hedging activity. Earning assets including federal funds sold, securities purchased under agreements to resell, interest-bearing due from and deposits with banks, Federal Reserve deposits, securities, and loans and leases are financed by a large base of interest-bearing funds that include client deposits; short-term borrowings; senior notes and long-term debt. Earning assets also are funded by net noninterest-related funds, which include demand deposits; the allowance for credit losses; and stockholders equity, reduced by nonearning assets such as noninterest-bearing cash and due from banks; items in process of collection; and buildings and equipment. Net interest income is subject to variations in the level and mix of earning assets and interest-bearing funds and their relative sensitivity to interest rates. In addition, the levels of nonperforming assets and client compensating deposit balances used to pay for services impact net interest income.

Net interest income in 2014 was $1.01 billion, up $72.4 million, or 8%, from $933.1 million in 2013. Net interest income on an FTE basis for 2014 was $1.03 billion, an increase of $69.3 million, or 7% from $965.6 million in 2013. The increase is primarily attributable to higher levels of average earning assets, partially offset by a decline in the net interest margin. Average earning assets increased $10.3 billion, or 12%, to $95.9 billion from $85.6 billion in 2013. The net interest margin in 2014 was 1.08%, down from 1.13% in 2013, primarily the result of lower yields on earning assets, partially offset by a lower cost of interest-related funds due to lower short-term interest rates.

Growth in average earning assets primarily reflected increased Federal Reserve deposits, securities and loans and leases. Federal Reserve deposits averaged $14.7 billion in 2014, up $7.1 billion, or 94%, from $7.6 billion in 2013. Securities, inclusive of Federal Reserve and Federal Home Loan Bank stock and certain community development investments which are classified in other assets in the consolidated balance sheet, averaged $33.4 billion, an increase of $2.6 billion, or 9%, from $30.8 billion in 2013. Loans and leases averaged $30.2 billion, an increase of $1.5 billion, or 5% higher than the $28.7 billion in 2013.

The increase in average earning assets was primarily funded by higher levels of interest-bearing and demand deposits. Non-U.S.-office interest-bearing client deposits averaged $48.3 billion in 2014, up $5.9 billion, or 14%, from $42.3 billion in 2013, while average demand deposits increased $3.0 billion, or 18%, to $19.6 billion in 2014 from $16.6 billion in 2013.

Stockholders equity averaged $8.2 billion in 2014 compared with $7.7 billion in 2013. The increase of $499.5 million, or 7%, principally reflected current-year earnings and the issuance of preferred stock during 2014, partially offset by dividend declarations and the repurchase of common stock pursuant to Northern Trust s share repurchase program. On August 5, 2014, Northern Trust issued 16,000 shares of Series C Non-Cumulative Perpetual Preferred Stock (Series C Preferred Stock), without par value, for proceeds of $388.5 million. Shares of the Series C Preferred Stock rank senior to Northern Trust s common stock. In October 2014, Northern Trust declared cash dividends totaling $9.5 million to preferred stockholders, payable January 1, 2015, covering the five-month period since issuance on August 5, 2014. Northern Trust returned $792.4 million in capital to common stockholders in 2014, including common stock dividend declarations totaling $311.7 million and common stock repurchases totaling $480.7 million.

Under our capital plan submitted in January 2014, which was reviewed without objection by the Federal Reserve Board in March 2014, the Corporation may repurchase up to $107.3 million of common stock after December 31, 2014 through March 31, 2015. In January 2015, the Corporation submitted its most recent capital plan to the Federal Reserve Board. The Corporation is authorized by its Board to purchase up to 7.1 million additional shares after December 31, 2014.

For additional analysis of average balances and interest rate changes affecting net interest income, refer to the Average Balance Sheet with Analysis of Net Interest Income included in Supplemental Item Selected Statistical and Supplemental Financial Data.

NET INTEREST INCOME 2013 COMPARED WITH 2012

Net interest income on an FTE basis decreased 6% to $965.6 million in 2013 from $1.03 billion in 2012, primarily due to a decline in the net interest margin, partially offset by higher levels of average earning assets. The net interest margin in 2013 was 1.13% compared to 1.22% in 2012, resulting from lower yields on earning assets, partially offset by a lower cost of interest-related funds.

Average earning assets increased $1.5 billion, or 2%, to $85.6 billion in 2013 from $84.2 billion in 2012. Growth in average earning assets primarily reflected a 41% increase in Federal Reserve deposits, partially offset by a 3% decrease in

interest-bearing deposits with banks. The increase in average earning assets in 2013 was primarily funded by higher levels of non-U.S.-office interest-bearing deposits and short-term borrowings, partially offset by lower levels of demand and other noninterest-bearing deposits.

Stockholders equity averaged $7.7 billion and $7.4 billion in 2013 and 2012, respectively. The increase in 2013 reflected the retention of earnings, partially offset by dividend declarations and the repurchase of common stock.

Provision for Credit Losses

The provision for credit losses was $6.0 million in 2014 compared with $20.0 million in 2013 and $25.0 million in 2012. The current-year provision primarily reflected improved credit quality in the commercial and institutional, commercial real estate and residential real estate loan classes, and allowances established as a result of increased commercial and institutional and commercial real estate loan volumes. Nonperforming assets at December 31, 2014, decreased 15% from the prior-year end. Residential real estate and commercial real estate loans accounted for 75% and 17%, respectively, of nonperforming loans and leases at December 31, 2014. For further discussion of the allowance and provision for credit losses for 2014, 2013, and 2012, refer to the Asset Quality section.

Noninterest Expense

Noninterest expense for 2014 totaled $3.14 billion, up $141.2 million, or 5%, from $2.99 billion in 2013. Results for 2014 include $47.5 million of charges and write-offs while the prior year included a $19.2 million legal settlement charge. Noninterest expense in 2012 included $18.6 million of charges associated with restructuring, acquisition and integration related activities.

The components of noninterest expense and a discussion of significant changes during 2014 and 2013 are provided below.

TABLE 11: NONINTEREST EXPENSE	FOR THE YEAR ENDED DECEMBER 31,			CHANGE	
($ In Millions)	**2014**	2013	2012	**2014 / 2013**	2013 / 2012
Compensation	**$ 1,417.9**	$ 1,306.6	$ 1,267.4	**9%**	3%
Employee Benefits	**268.7**	257.5	258.2	**4**	
Outside Services	**574.6**	564.1	529.2	**2**	7
Equipment and Software	**421.4**	377.6	366.7	**12**	3
Occupancy	**180.3**	173.8	174.4	**4**	
Other Operating Expense	**272.1**	314.2	282.9	**(13)**	11
Total Noninterest Expense	**$ 3,135.0**	$ 2,993.8	$ 2,878.8	**5%**	4%

Compensation

Compensation expense, the largest component of noninterest expense, totaled $1.42 billion and $1.31 billion in 2014 and 2013, respectively, an increase of $111.3 million, or 9%. Results for 2014 include severance-related charges totaling $29.4 million. Excluding these charges, compensation expense increased $81.9 million, or 6%, primarily due to higher staff levels and performance-based compensation and base pay adjustments. Staff on a full-time equivalent basis totaled approximately 15,400 at December 31, 2014, up 4% from approximately 14,800 at December 31, 2013.

Employee Benefits

Employee benefits expense totaled $268.7 million in 2014, up $11.2 million, or 4%, from $257.5 million in 2013, and included $2.7 million of severance-related charges. Excluding these charges, employee benefit expense increased $8.5 million, or 3%, attributable to higher expense associated with employee medical and defined contribution postretirement benefits and payroll tax expense, partially offset by lower pension expense.

Outside Services

Outside services expense totaled $574.6 million in 2014, up $10.5 million, or 2%, from $564.1 million in 2013. Outside services expense in 2014 included $1.6 million of severance-related charges. Excluding these charges, outside services expense increased $8.9 million, or 2%, from the prior year, primarily related to higher sub-custodian and investment management sub-advisor

fees, partially offset by lower technical services expense. Investment management sub-advisor fees are those paid to external investment managers for services provided to certain funds Northern Trust manages and those relating to custom client programs. Technical services expense includes costs for systems and application support, the provision of market and research data, and outsourced check processing and lockbox services, among other services.

Equipment and Software

Equipment and software expense, comprised of depreciation and amortization, rental, and maintenance costs, increased $43.8 million, or 12%, to $421.4 million in 2014 compared to $377.6 million in 2013. Results for 2014 include $9.5 million of write-offs of replaced or eliminated software. Excluding these write-offs, equipment and software expense increased $34.3 million, or 9%, reflecting increased software amortization and related software support costs.

Occupancy

Occupancy expense totaled $180.3 million in 2014, up $6.5 million, or 4%, from $173.8 million in 2013. Occupancy expense in 2014 included charges totaling $4.3 million in connection with reductions in office space. Excluding these charges, occupancy expense increased 1% compared to 2013.

Other Operating Expense

Other operating expense in 2014 totaled $272.1 million, down $42.1 million, or 13%, from $314.2 million in 2013. The components of other operating expense are as follows:

TABLE 12: OTHER OPERATING EXPENSE	FOR THE YEAR ENDED DECEMBER 31,			CHANGE	
($ In Millions)	**2014**	2013	2012	**2014 / 2013**	2013 / 2012
Business Promotion	**$ 88.0**	$ 91.6	$ 87.8	**(4)%**	4%
FDIC Insurance Premiums	**22.0**	23.5	25.4	**(6)**	(7)