

Fitch: Higher Costs Offset Equity Markets Tailwind in Northern Trust's 4Q'13 Earnings

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--According to Fitch Ratings, Northern Trust Corporation (NTRS) reported lower fourth quarter 2013 (4Q'13) earnings of \$169.7 million relative to \$206.5 million in the sequential quarter. Fitch would note that negatively impacting 4Q'13 earnings was a pre-tax charge of \$19.2 million related to resolving a class action litigation and positively impacting 3Q'13 earnings was a pre-tax \$32.6 million gain related to the sale of an office building in Miami, FL.

Excluding these items noted above, on a core basis net income for 4Q'13 would have been \$181.6 million which equates to a 9.3% return on average equity (ROE), and for 3Q'13 net income would have been \$186.2 million equating to a 9.6% ROE. While this result was still satisfactory from a credit perspective, it remains below NTRS' long-term averages and is somewhat surprising given the tailwind the company enjoyed from rising equity markets over the course of the year.

Total revenue was flat relative to the sequential quarter as a 4% rise in trust and servicing income was offset by a 19% decline in foreign exchange trading income and a 13% decline in security commissions and trading income. Net interest income (NII) rose 5% from the sequential quarter amid higher deposit balances but the net interest margin (NIM) declined to 1.12% from 1.14% in the sequential quarter. The NIM declined amid overall lower yields partially offset by lower premium amortization on mortgage backed securities (MBS).

NTRS' overall expenses climbed 7% from the sequential quarter reflecting negative operating leverage on the quarter. Even excluding the one-time charge related to settling a class action litigation noted above, NTRS' expenses still climbed 5% relative to the flat revenue growth. This was due largely to higher compensation and benefits expense and higher outside services expenses primarily due to increased legal costs.

Fitch continues to believe that NTRS' revenue growth will remain challenging as long as short-term interest rates remain low as it is causing the company to continue to incur money market fee waivers as well as constrain its NIM. While higher equity markets have helped support earnings this has been offset by continued cost pressures at the company.

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NTRS' overall credit quality remains good with a non-performing asset (NPA) ratio of 0.93% at 4Q'13 and an overall net charge-off (NCO) ratio of 0.20% at 4Q'13.

NTRS' low risk balance sheet and good capital position continues to be its main ratings differentiator. As of 4Q'13, the company's Tier 1 common equity ratio (CET1) of 12.9% was down very modestly from the 13.1% ratio at 3Q'13, but in Fitch's opinion remains very strong. Additionally, given the challenging growth environment, the company continues to be an active share repurchaser, which Fitch would expect to continue in 2014.

Additional information is available at www.fitchratings.com.

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