

NORTHERN TRUST CORP
Form 10-Q
July 27, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

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. 001-36609

NORTHERN TRUST CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 36-2723087

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

50 South LaSalle Street 60603

Chicago, Illinois

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (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 Rule 12b-2 of the Exchange Act). Yes No

226,590,921 Shares – \$1.66 2/3 Par Value

(Shares of Common Stock Outstanding on June 30, 2016)

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FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016
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(UNAUDITED)

CONDENSED INCOME STATEMENTS (In Millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% Change ⁽¹⁾	2016	2015	% Change ⁽¹⁾
Noninterest Income	\$1,017.0	\$1,004.7	1 %	\$1,899.2	\$1,878.6	1 %
Net Interest Income	299.7	251.2	19	607.5	511.8	19
Provision for Credit Losses	(3.0)	(10.0)	(70)	(1.0)	(14.5)	(93)
Noninterest Expense	925.0	854.5	8	1,753.8	1,643.5	7
Income before Income Taxes	394.7	411.4	(4)	753.9	761.4	(1)
Provision for Income Taxes	134.0	142.2	(6)	251.4	261.5	(4)
Net Income	\$260.7	\$269.2	(3)%	\$502.5	\$499.9	1 %
PER COMMON SHARE						
Net Income — Basic	\$1.10	\$1.11	(1)%	\$2.11	\$2.06	3 %
— Diluted	1.09	1.10	(1)	2.10	2.04	3
Cash Dividends Declared Per Common Share	0.36	0.36	—	0.72	0.69	4
Book Value — End of Period (EOP)	37.79	35.91	5	37.79	35.91	5
Market Price — EOP	66.26	76.46	(13)	66.26	76.46	(13)
SELECTED BALANCE SHEET DATA (In Millions)						
		June 30,	December	% Change ⁽¹⁾		
		2016	31, 2015			

End of Period:

Assets	\$121,509.6	\$116,749.6	4 %
Earning Assets	111,214.9	106,848.9	4
Deposits	99,086.9	96,868.9	2
Stockholders' Equity	8,951.5	8,705.9	3

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% Change ⁽¹⁾	2016	2015	% Change ⁽¹⁾

Average Balances:

Assets	\$114,913.8	\$111,691.1	3 %	\$114,165.4	\$109,613.7	4 %
Earning Assets	106,613.5	103,806.0	3	105,615.5	101,263.7	4
Deposits	93,608.1	92,335.1	1	93,042.2	89,446.7	4
Stockholders' Equity	8,792.7	8,607.9	2	8,741.9	8,540.7	2

CLIENT ASSETS (In Billions)	June 30,	December	% Change ⁽¹⁾	
	2016	31, 2015		
Assets Under Custody/Administration ⁽²⁾	\$8,115.9	\$7,797.0	4	%
Assets Under Custody	6,352.8	6,072.1	5	
Assets Under Management	906.2	875.3	4	

⁽¹⁾ Percentage calculations are based on actual balances rather than the rounded amounts presented in the Consolidated Financial Highlights.

⁽²⁾ For the purposes of disclosing Assets Under Custody/Administration, to the extent that both custody and administration services are provided, the value of the assets is included only once.

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SELECTED RATIOS AND METRICS

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Financial Ratios:				
Return on Average Common Equity	12.20%	12.85%	11.82%	12.08%
Return on Average Assets	0.91	0.97	0.89	0.92
Dividend Payout Ratio	33.0	32.7	34.3	33.8
Net Interest Margin ⁽¹⁾	1.16	1.00	1.18	1.04
	June 30, 2016		December 31, 2015	
	Advanced	Standardized	Advanced	Standardized
	Approach	Approach	Approach	Approach
Capital Ratios:				
Northern Trust Corporation				
Common Equity Tier 1	11.5%	10.6%	11.9%	10.8%
Tier 1	12.0	11.0	12.5	11.4
Total	13.5	12.7	14.2	13.2
Tier 1 Leverage	7.4	7.4	7.5	7.5
Supplementary Leverage ⁽²⁾	6.1	N/A	6.2	N/A
The Northern Trust Company				
Common Equity Tier 1	11.6%	10.4%	11.6%	10.4%
Tier 1	11.6	10.4	11.6	10.4
Total	13.3	12.3	13.1	12.0
Tier 1 Leverage	7.0	7.0	6.7	6.7
Supplementary Leverage ⁽²⁾	5.8	N/A	5.6	N/A

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 26.

⁽²⁾ Effective January 1, 2018, Northern Trust will be subject to a minimum supplementary leverage ratio of 3 percent.

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PART I – FINANCIAL INFORMATION

Items 2. and 3. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk

SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS

General

Northern Trust Corporation (the Corporation) is a financial holding company that is a leading provider of asset servicing, fund administration, asset management, fiduciary and banking solutions for corporations, institutions, families and individuals worldwide. The Corporation 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. Except where the context requires otherwise, the term “Northern Trust,” “we,” “us,” “our” or similar terms mean the Corporation and its subsidiaries on a consolidated basis.

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

Overview

Net income per diluted common share was \$1.09 in the current quarter, down from \$1.10 in the second quarter of 2015. Net income was \$260.7 million in the current quarter as compared to \$269.2 million in the prior-year quarter. Annualized return on average common equity in the current quarter was 12.2%, down from 12.8% in the prior-year quarter. The annualized return on average assets was 0.9% as compared to 1.0% in the prior-year quarter.

The current quarter included a gain on the sale of 1.1 million Visa Inc. Class B common shares, net of the valuation adjustment to existing swap agreements, totaling \$118.2 million (\$73.1 million after tax, or \$0.31 per diluted common share); a charge in connection with an agreement to settle certain securities lending litigation, which is subject to court approval, of \$46.5 million (\$28.9 million after tax, or \$0.12 per diluted common share); charges related to contractual modifications associated with existing C&IS clients of \$18.6 million (\$11.6 million after tax, or \$0.05 per diluted common share); severance, other personnel and related charges of \$17.5 million (\$11.2 million after tax or \$0.05 per diluted common share); impairment charges and the loss on sale related to the decision to exit a portion of a non-strategic loan and lease portfolio of \$14.1 million (\$8.8 million after tax, or \$0.04 per diluted common share); and impairment charges related to the residual value of certain aircraft and rail cars of \$7.5 million (\$4.6 million after tax, or \$0.02 per diluted common share). Excluding these items, net income per diluted common share, net income and return on average common equity were \$1.06, \$252.7 million and 11.7%, respectively.

The prior-year quarter included a net gain on the sale of 1.0 million Visa Inc. Class B common shares totaling \$99.9 million (\$62.1 million after tax, or \$0.26 per diluted common share); voluntary cash contributions to certain constant dollar net-asset-value (NAV) funds of \$45.8 million (\$28.6 million after tax, or \$0.12 per diluted common share); and the impairment of the residual value of certain aircraft under leveraged lease agreements of \$17.8 million (\$11.1 million after tax, or \$0.05 per diluted common share). Excluding these items, net income per diluted common share, net income, and return on average common equity were \$1.01, \$246.7 million and 11.8%, respectively.

Revenue of \$1.32 billion was up \$60.8 million, or 5%, from \$1.26 billion in the prior-year quarter, primarily reflecting higher net interest income and trust, investment and other servicing fees, partially offset by lower foreign exchange trading income. Noninterest income increased \$12.3 million, or 1%, to \$1.02 billion from \$1.00 billion in the prior-year quarter.

Net interest income increased 19% to \$299.7 million in the current quarter as compared to \$251.2 million in the prior-year quarter, due to growth in earning assets and a higher net interest margin. Additionally, the current quarter included a charge of \$2.7 million related to the residual value of certain aircraft and rail cars. The prior-year quarter included a charge of \$17.8 million related to the residual value of certain aircraft under leveraged lease agreements.

The provision for credit losses was a credit of \$3.0 million in the current quarter, as compared to a credit provision of \$10.0 million in the prior-year quarter.

Noninterest expense totaled \$925.0 million, up \$70.5 million, or 8%, from \$854.5 million in the prior-year quarter. The current quarter included a charge in connection with an agreement to settle certain securities lending litigation, which is subject to court approval, of \$46.5 million; charges related to contractual modifications associated with existing C&IS clients of \$18.6 million;

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Overview (continued)

and severance, other personnel and related charges of \$17.5 million. The prior-year quarter included the \$45.8 million charge related to voluntary cash contributions to certain constant dollar NAV funds. Excluding the current- and prior-year quarter charges, noninterest expense increased \$33.7 million, or 4%, primarily attributable to higher compensation and outside services expense.

The components of noninterest income are provided below.

Table 1: Noninterest Income

Noninterest Income (\$ In Millions)	Three Months Ended June 30,				
	2016	2015	Change		
Trust, Investment and Other Servicing Fees	\$777.2	\$756.8	\$20.4	3	%
Foreign Exchange Trading Income	64.4	74.8	(10.4)	(14))
Treasury Management Fees	16.0	16.1	(0.1)	(1))
Security Commissions and Trading Income	20.6	20.0	0.6	3	
Other Operating Income	141.2	137.4	3.8	3	
Investment Security Gains (Losses), net	(2.4)	(0.4)	(2.0)		N/M
Total Noninterest Income	\$1,017.0	\$1,004.7	\$12.3	1	%

Trust, investment and other servicing fees are based primarily on: the market value of assets held in custody, managed or serviced; the volume of transactions; securities lending volume and spreads; and fees for other services rendered. Certain market-value-based fees are calculated on asset values that are a month or quarter in arrears. For a further discussion of trust, investment and other servicing fees and how they are derived, refer to the "Reporting Segments" section.

Assets under custody/administration (AUC/A) and assets under management form the primary drivers of our trust, investment and other servicing fees. For the purposes of disclosing AUC/A, to the extent that both custody and administration services are provided, the value of the assets is included only once. At June 30, 2016, AUC/A were \$8.12 trillion, up \$189.5 billion, or 2%, from \$7.93 trillion at March 31, 2016.

The following table presents Northern Trust's assets under custody, a component of AUC/A, by reporting segment.

Table 2: Assets Under Custody

Assets Under Custody (\$ In Billions)	June 30, 2016	March 31, 2016	June 30, 2015	Change Q2-16/Q1-16	Change Q2-16/Q2-15
Corporate & Institutional	\$5,838.6	\$5,700.3	\$5,652.6	2 %	3 %
Wealth Management	514.2	511.1	524.4	1	(2)
Total Assets Under Custody	\$6,352.8	\$6,211.4	\$6,177.0	2 %	3 %

The following table presents the allocation of Northern Trust's custodied assets by reporting segment.

Table 3: Allocations of Assets Under Custody

Assets Under Custody	June 30, 2016		March 31, 2016		June 30, 2015	
	C&ISWM	Total	C&ISWM	Total	C&ISWM	Total
Equities	42%	54%	43%	54%	43%	45%
Fixed Income	40	24	39	23	38	37
Cash and Other Assets	18	22	18	23	19	18

The 3% increase in consolidated assets under custody from \$6.18 trillion at June 30, 2015 to \$6.35 trillion as of June 30, 2016 primarily reflected new business and the impact of favorable fixed income markets, partially offset by the unfavorable impact of foreign currency movements.

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income (continued)

The following table presents Northern Trust's assets under management by reporting segment.

Table 4: Assets Under Management

Assets Under Management	June 30, 2016	March 31, 2016	June 30, 2015	Change Q2-16/Q1-16	Change Q2-16/Q2-15
(\$ In Billions)					
Corporate & Institutional Wealth Management	\$672.3	\$669.9	\$713.6	— %	(6)%
Total Assets Under Management	\$906.2	\$900.0	\$945.6	1 %	(4)%

The following table presents Northern Trust's assets under management by investment type.

Table 5: Assets Under Management by Investment Type

(\$ In Billions)	June 30, 2016	March 31, 2016	June 30, 2015
Equities	\$456.4	\$ 453.5	\$487.7
Fixed Income	156.3	148.5	167.7
Cash and Other Assets	185.2	192.0	169.9
Securities Lending Collateral	108.3	106.0	120.3
Total Assets Under Management	\$906.2	\$ 900.0	\$945.6

The following table presents the allocation of Northern Trust's assets under management by reporting segment.

Table 6: Allocations of Assets Under Management

Assets Under Management	June 30, 2016		March 31, 2016		June 30, 2015				
	C&ISWM	Total	C&ISWM	Total	C&ISWM	Total			
Equities	52%	46%	50%	52%	46%	50%	53%	47%	51%
Fixed Income	13	29	17	12	29	17	14	28	18
Cash and Other Assets	19	25	21	20	25	21	16	25	18
Securities Lending Collateral	16	—	12	16	—	12	17	—	13

The 4% decrease in consolidated assets under management from \$945.6 billion at June 30, 2015 to \$906.2 billion as of June 30, 2016 primarily reflected lower equity assets due to outflows from certain sovereign wealth fund clients and unfavorable global equity markets, as well as lower fixed income assets due to the loss of one passive mandate from a non-U.S. institutional client.

Changes in assets under custody and under management are in comparison to the twelve-month increase in the S&P 500 index of 1.7% and decrease in the MSCI EAFE index (USD) of 12.7%.

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income (continued)

The following table presents activity in consolidated assets under management by investment type.

Table 7: Activity in Consolidated Assets Under Management by Investment Type

(\$ In Billions)	Three Months Ended	
	June 30, 2016	March 31, 2016
Beginning Balance of AUM	\$900.0	\$ 875.3
Inflows by Investment Type		
Equity	34.9	29.4
Fixed Income	18.6	11.4
Cash & Other Assets	83.6	94.6
Securities Lending Collateral	21.5	20.4
Total Inflows	158.6	155.8
Outflows by Investment Type		
Equity	(31.4)	(28.1)
Fixed Income	(14.9)	(10.2)
Cash & Other Assets	(84.7)	(80.3)
Securities Lending Collateral	(19.3)	(18.2)
Total Outflows	(150.3)	(136.8)
Net Inflows	8.3	19.0
Market Performance, Currency & Other	(2.1)	5.7
Ending Balance of AUM	\$906.2	\$ 900.0

Foreign exchange trading income totaled \$64.4 million in the current quarter, down \$10.4 million, or 14%, compared to \$74.8 million in the prior-year quarter. The decrease generally reflected lower client volumes as compared to the prior-year quarter.

Other operating income in the current quarter included the gain on the sale of 1.1 million Visa Inc. Class B common shares, net of the valuation adjustment to existing swap agreements, totaling \$118.2 million, offset by impairment charges and the loss on sale related to the decision to exit a portion of a non-strategic loan and lease portfolio as well as impairment charges related to the residual value of certain aircraft and rail cars of \$18.9 million. The prior-year quarter included a \$99.9 million net gain on the sale of 1.0 million Visa Inc. Class B Common Shares. Excluding these items, other operating income totaled \$41.9 million, up 12% compared to \$37.5 million in the prior-year quarter, primarily due to income associated with supplemental compensation plans.

Table 8: Other Operating Income

(\$ In Millions)	Three Months Ended June 30,		
	2016	2015	Change
Loan Service Fees	\$14.8	\$14.6	\$0.2 2%
Banking Service Fees	12.8	11.8	1.0 9

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Other Income	113.6	111.0	2.6	2
Total Other Operating Income	\$141.2	\$137.4	\$3.8	3%

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Net Interest Income

The following table presents an analysis of average balances and interest rate changes affecting net interest income.

Table 9: Average Consolidated Balance Sheets with Analysis of Net Interest Income

NORTHERN TRUST CORPORATION						
SECOND QUARTER						
(Interest and Rate on a Fully Taxable Equivalent Basis)	2016			2015		
(\$ In Millions)	Interest	Average Balance	Rate ⁽⁵⁾	Interest	Average Balance	Rate ⁽⁵⁾
Average Earning Assets						
Federal Funds Sold and Securities Purchased under						
Agreements to Resell	\$4.8	\$1,915.2	1.00 %	\$1.2	\$1,041.9	0.46 %
Interest-Bearing Due from and Deposits with Banks ⁽¹⁾	16.5	9,827.9	0.68	22.7	12,012.4	0.76
Federal Reserve and Other Central Bank Deposits	23.6	19,657.8	0.48	15.5	19,900.3	0.31
Securities						
U.S. Government	20.9	6,875.1	1.22	13.4	4,789.1	1.12
Obligations of States and Political Subdivisions	2.5	470.2	2.09	1.9	112.2	6.75
Government Sponsored Agency	37.0	17,347.0	0.86	34.2	16,821.7	0.82
Other ⁽²⁾	42.9	16,064.2	1.07	33.8	16,207.0	0.84
Total Securities	103.3	40,756.5	1.02	83.3	37,930.0	0.88
Loans and Leases ⁽³⁾	203.4	34,456.1	2.38	172.5	32,921.4	2.10
Total Earning Assets	351.6	106,613.5	1.33	295.2	103,806.0	1.14
Allowance for Credit Losses Assigned to Loans and Leases	—	(195.4)	—	—	(260.0)	—
Cash and Due from Banks and Other Central Bank Deposits ⁽⁴⁾	—	2,093.9	—	—	2,142.9	—
Buildings and Equipment	—	439.9	—	—	446.5	—
Client Security Settlement Receivables	—	1,143.0	—	—	945.0	—
Goodwill	—	531.2	—	—	531.1	—
Other Assets	—	4,287.7	—	—	4,079.6	—
Total Assets	\$—	\$114,913.8	— %	\$—	\$111,691.1	— %
Average Source of Funds						
Deposits						
Savings and Money Market	\$2.7	\$15,041.3	0.07 %	\$2.4	\$15,705.4	0.06 %
Savings Certificates and Other Time	1.9	1,405.0	0.54	2.1	1,779.5	0.48
Non-U.S. Offices — Interest-Bearing	16.6	50,443.8	0.13	13.9	49,291.8	0.11
Total Interest-Bearing Deposits	21.2	66,890.1	0.13	18.4	66,776.7	0.11
Short-Term Borrowings	4.9	6,195.0	0.32	1.3	4,404.8	0.12
Senior Notes	11.7	1,496.1	3.15	11.9	1,497.1	3.14
Long-Term Debt	6.4	1,403.2	1.84	5.5	1,380.2	1.59
Floating Rate Capital Debt	0.8	277.4	1.20	0.5	277.3	0.84
Total Interest-Related Funds	45.0	76,261.8	0.24	37.6	74,336.1	0.20
Interest Rate Spread	—	—	1.09	—	—	0.94
Demand and Other Noninterest-Bearing Deposits	—	26,718.0	—	—	25,558.4	—
Other Liabilities	—	3,141.3	—	—	3,188.7	—
Stockholders' Equity	—	8,792.7	—	—	8,607.9	—
Total Liabilities and Stockholders' Equity	\$—	\$114,913.8	— %	\$—	\$111,691.1	— %
Net Interest Income/Margin (FTE Adjusted)	\$306.6	\$—	1.16 %	\$257.6	\$—	1.00 %
Net Interest Income/Margin (Unadjusted)	\$299.7	\$—	1.13 %	\$251.2	\$—	0.97 %

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Net Interest Income (continued)

ANALYSIS OF NET INTEREST INCOME CHANGES
DUE TO VOLUME AND RATE

(In Millions)	Three Months Ended June 30, 2016/2015		
	Change Due To		
	Average Balance	Rate	Total
Earning Assets (FTE)	\$7.9	\$48.5	\$56.4
Interest-Related Funds	0.9	6.5	7.4
Net Interest Income (FTE)	\$7.0	\$42.0	\$49.0

- (1) Interest-Bearing Due from and Deposits with Banks includes the interest-bearing component of Cash and Due from Banks and Interest-Bearing Deposits with Banks as presented on the consolidated balance sheets.
- (2) Other securities include certain community development investments and Federal Home Loan Bank and Federal Reserve stock, which are classified in other assets in the consolidated balance sheets as of June 30, 2016 and 2015.
- (3) Average balances include nonaccrual loans. Lease financing receivable balances are reduced by deferred income.
- (4) Cash and Due from Banks and Other Central Bank Deposits includes the non-interest-bearing component of Federal Reserve and Other Central Bank Deposits as presented on the consolidated balance sheets on page 29.
- (5) Rate calculations are based on actual balances rather than the rounded amounts presented in the Average Consolidated Balance Sheets with Analysis of Net Interest Income.

Net Interest Income (FTE Adjusted), a non-generally accepted accounting principle (GAAP) financial measure, includes adjustments to a fully taxable equivalent basis for loans and securities. Such adjustments are based on a blended federal and state tax rate of 37.8% and 37.7% for the three months ended June 30, 2016 and 2015, respectively. Total taxable equivalent interest adjustments amounted to \$6.9 million and \$6.4 million for the three months ended June 30, 2016 and 2015, respectively. A reconciliation of net interest income and net interest margin on a GAAP basis to net interest income and net interest margin on an FTE basis (each of which is a non-GAAP financial measure) is provided on page 26.

Interest revenue on cash collateral positions is reported above within interest-bearing deposits with banks and within loans and leases. Interest expense on cash collateral positions is reported above within non-U.S. offices interest-bearing deposits. Related cash collateral received from and deposited with derivative counterparties is recorded net of the associated derivative contract within other assets and other liabilities, respectively.

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.

Net interest income on a fully taxable equivalent (FTE) basis totaled \$306.6 million, up \$49.0 million, or 19%, compared to \$257.6 million in the prior-year quarter. The increase was primarily the result of growth in average earning assets and a higher net interest margin. Additionally, the current quarter included a charge of \$2.7 million related to the residual value of certain aircraft

and rail cars. The prior-year quarter included a charge of \$17.8 million related to the residual value of certain aircraft under leveraged lease agreements. Average earning assets for the current quarter averaged \$106.6 billion, up \$2.8 billion, or 3%, from \$103.8 billion in the prior-year quarter, primarily resulting from higher levels of securities and loans. Earning asset growth was funded primarily by a higher level of borrowed funds and demand deposits.

The net interest margin on an FTE basis increased to 1.16% in the current quarter from 1.00% in the prior-year quarter. Excluding the impairments noted above, the net interest margin was 1.16% and 1.06% for the three months ended June 30, 2016 and 2015, respectively, primarily reflecting higher yields on earning assets.

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 and net interest margin on a GAAP basis to net interest income and net interest margin on an FTE basis (each of which is a non-GAAP financial measure) is provided on page 26.

Federal Reserve and other central bank deposits averaged \$19.7 billion, down \$242.5 million, or 1%, from \$19.9 billion in the prior-year quarter. Average securities were \$40.8 billion, up \$2.8 billion, or 7%, from \$37.9 billion in the prior-year quarter and include Federal Home Loan Bank, certain community development investments and Federal Reserve stock of \$195.6 million, \$188.7 million and \$53.1 million, respectively, which are recorded in other assets in the consolidated balance sheets.

Loans and leases averaged \$34.5 billion, up \$1.5 billion, or 5%, from \$32.9 billion in the prior-year quarter, primarily reflecting higher levels of private client loans, commercial and institutional loans, and commercial real estate loans, partially offset by reductions in residential real estate loans. Private client loans averaged \$9.3 billion, up \$1.3 billion, or 17%, from \$8.0 billion for the prior-year quarter. Commercial and institutional loans averaged \$10.4 billion, up \$1.4 billion, or 16%, from \$9.0 billion for the prior-year quarter. Commercial real estate loans averaged \$3.9 billion, up \$384.2 million, or 11%, from \$3.6 billion for the

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Net Interest Income (continued)

prior-year quarter. Residential real estate loans averaged \$8.5 billion, down \$956.5 million, or 10.1%, from \$9.4 billion for the prior-year quarter.

Northern Trust utilizes a diverse mix of funding sources. Total interest-bearing deposits averaged \$66.9 billion, compared to \$66.8 billion in the prior-year quarter, an increase of \$113.4 million. Other interest-bearing funds averaged \$9.4 billion, an increase of \$1.8 billion, from \$7.6 billion in the prior-year quarter, primarily attributable to increased short-term borrowings. The balances within short-term borrowing classifications vary based on funding requirements and strategies, interest rate levels, changes in the volume of lower-cost deposit sources, and the availability of collateral to secure these borrowings. Average net noninterest-related funds utilized to fund earning assets increased \$881.8 million, or 3%, to \$30.4 billion from \$29.5 billion in the prior-year quarter, primarily resulting from higher levels of demand and other noninterest-bearing deposits.

Provision for Credit Losses

The provision for credit losses was a credit of \$3.0 million in the current quarter, as compared to a credit provision of \$10.0 million in the prior-year quarter. Net charge-offs in the current quarter were \$2.4 million, resulting from charge-offs of \$4.9 million and recoveries of \$2.5 million. The prior-year quarter included \$2.6 million of net charge-offs, resulting from \$6.1 million of charge-offs and \$3.5 million of recoveries. Nonperforming assets of \$166.4 million decreased 24% from the prior-year quarter. Residential real estate loans and commercial loans accounted for 65% and 25%, respectively, of total nonperforming loans and leases at June 30, 2016. For additional discussion of the provision and allowance for credit losses, refer to the "Asset Quality" section beginning on page 22.

Noninterest Expense

The components of noninterest expense are provided below.

Table 10: Noninterest Expense

Noninterest Expense (\$ In Millions)	Three Months Ended June 30,			
	2016	2015	Change	
Compensation	\$389.5	\$361.9	\$27.6	8 %
Employee Benefits	72.2	73.2	(1.0)	(1)
Outside Services	159.0	147.2	11.8	8
Equipment and Software	118.0	114.4	3.6	3
Occupancy	45.3	43.0	2.3	5
Other Operating Expense	141.0	114.8	26.2	23
Total Noninterest Expense	\$925.0	\$854.5	\$70.5	8 %

Compensation expense, the largest component of noninterest expense, totaled \$389.5 million in the current quarter, compared to \$361.9 million in the prior-year quarter. Compensation expense in the current quarter included severance and related charges of \$13.0 million. Excluding the severance and related charges, compensation expense increased \$14.6 million, or 4%, compared to the prior-year quarter, primarily reflecting higher staff levels, partially offset by lower performance-based incentive compensation. Staff on a full-time equivalent basis at June 30, 2016 totaled approximately 16,600, up 5% from June 30, 2015.

Employee benefit expense totaled \$72.2 million in the current quarter, compared to \$73.2 million in the prior-year quarter. Employee benefits expense in the current quarter included severance and related charges of \$1.5 million. Excluding the severance and related charges, employee benefits expense decreased 3% compared to the prior-year quarter, primarily reflecting a decrease in pension expense.

Expense associated with outside services totaled \$159.0 million in the current quarter, compared to \$147.2 million in the prior-year quarter. Expense for outside services in the current quarter included severance and related charges of \$0.7 million. Excluding the severance and related charges, expense for outside services increased \$11.1 million, or 8%, compared to the prior-year quarter, primarily reflecting increased technical services and consulting services,

partially offset by a reduction in third party advisory fees.

Equipment and software expense totaled \$118.0 million in the current quarter, up 3% from \$114.4 million in the prior-year quarter, primarily reflecting increased software amortization.

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Expense (continued)

Occupancy expense totaled \$45.3 million, up \$2.3 million, or 5%, from \$43.0 million in the prior-year quarter, reflecting increased rent expense.

Other operating expense totaled \$141.0 million in the current quarter compared to \$114.8 million in the prior-year quarter. The components of other operating expense are provided below.

Table 11: Other Operating Expense

Other Operating Expense (\$ In Millions)	Three Months Ended June 30,		
	2016	2015	Change
Business Promotion	\$18.5	\$20.8	\$(2.3) (11)%
Staff Related	15.9	9.3	6.6 73
FDIC Insurance Premiums	7.1	5.8	1.3 22
Other Intangibles Amortization	2.2	2.1	0.1 5
Other Expenses	97.3	76.8	20.5 27
Total Other Operating Expense	\$141.0	\$114.8	\$26.2 23 %

Other operating expense in the current quarter included a charge in connection with an agreement to settle certain securities lending litigation of \$46.5 million, charges related to contractual modifications associated with existing C&IS clients of \$18.6 million, and other personnel charges of \$2.3 million recorded in the current quarter. The prior-year quarter included a charge related to voluntary cash contributions to certain constant dollar NAV funds totaling \$45.8 million. Excluding these charges, other operating expense was \$73.6 million, up 7% compared to \$69.0 million in the prior-year quarter, primarily due to increases in various other expenses, including higher supplemental compensation plan expense. The supplemental compensation plan expense has associated income in other operating income.

Provision for Income Taxes

Income tax expense was \$134.0 million in the current quarter, representing an effective tax rate of 33.9%, compared to \$142.2 million in the prior-year quarter, representing an effective tax rate of 34.6%. The decrease in the provision for income taxes compared to the prior-year quarter was based primarily on lower income before income taxes and a lower effective tax rate driven by federal tax-exempted income and an overall reduction in the state income tax provision, which included an increase in state income tax credits.

REPORTING SEGMENTS

Northern Trust is organized around its two client-focused reporting segments: 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. Income and expense associated with the wholesale funding activities and investment portfolios of the Corporation and its principal subsidiary, The Northern Trust Company (the Bank), as well as certain corporate-based expense, executive level compensation and nonrecurring items, are not allocated to C&IS and Wealth Management, and are reported in Northern Trust's third reporting segment, Treasury and Other, in the following pages.

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REPORTING SEGMENTS (continued)

The following tables reflect the earnings contributions and average assets of Northern Trust's reporting segments for the three- and six-month periods ended June 30, 2016 and 2015. Reporting segment financial information, presented on an internal management-reporting basis, is determined by accounting systems that are used to allocate revenue and expense related to each segment and incorporates processes for allocating assets, liabilities, equity and the applicable interest income and expense.

Table 12: Results of Reporting Segments

Three Months Ended June 30, (\$ In Millions)	Corporate & Institutional Services		Wealth Management		Treasury and Other		Total Consolidated		
	2016	2015	2016	2015	2016	2015	2016	2015	
Noninterest Income									
Trust, Investment and Other Servicing Fees	\$446.9	\$432.0	\$330.3	\$324.8	\$—	\$—	\$777.2	\$756.8	
Foreign Exchange Trading Income	62.2	71.8	1.6	3.0	0.6	—	64.4	74.8	
Other Noninterest Income	25.9	43.2	26.7	26.8	122.8	103.1	175.4	173.1	
Net Interest Income*	141.2	92.7	160.2	141.0	5.2	23.9	306.6	257.6	
Revenue*	676.2	639.7	518.8	495.6	128.6	127.0	1,323.6	1,262.3	
Provision for Credit Losses	(0.8)	2.0	(2.2)	(12.0)	—	—	(3.0)	(10.0)	
Noninterest Expense	556.8	488.2	330.3	322.7	37.9	43.6	925.0	854.5	
Income before Taxes*	120.2	149.5	190.7	184.9	90.7	83.4	401.6	417.8	
Provision for Income Taxes*	34.0	45.3	71.9	69.6	35.0	33.7	140.9	148.6	
Net Income	\$86.2	\$104.2	\$118.8	\$115.3	\$55.7	\$49.7	\$260.7	\$269.2	
Percentage of Consolidated Net Income	33	% 39	% 46	% 43	% 21	% 18	% 100	% 100	%
Average Assets	\$75,696.5	\$75,765.9	\$26,736.6	\$24,850.4	\$12,480.7	\$11,074.8	\$114,913.8	\$111,691.1	

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* Non-GAAP financial measures stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of \$6.9 million for 2016 and \$6.4 million for 2015. A reconciliation of revenue, net interest income and net interest margin on a GAAP basis to revenue, net interest income and net interest margin on an FTE basis (each of which is a non-GAAP financial measure) is provided on page 26.

Six Months Ended June 30, (\$ In Millions)	Corporate & Institutional Services		Wealth Management		Treasury and Other		Total Consolidated		
	2016	2015	2016	2015	2016	2015	2016	2015	
Noninterest Income Trust, Investment and Other Servicing Fees	\$880.3	\$839.3	\$645.1	\$645.0	\$—	\$—	\$1,525.4	\$1,484.3	
Foreign Exchange Trading Income	113.9	139.3	6.1	7.1	4.9	—	124.9	146.4	
Other Noninterest Income	71.5	85.1	53.5	55.6	123.9	107.2	248.9	247.9	
Net Interest Income*	279.6	188.7	318.7	279.3	22.3	56.4	620.6	524.4	
Revenue*	1,345.3	1,252.4	1,023.4	987.0	151.1	163.6	2,519.8	2,403.0	
Provision for Credit Losses	(4.0)	(0.2)	3.0	(14.3)	—	—	(1.0)	(14.5)	
Noninterest Expense	1,032.1	923.1	657.2	644.6	64.5	75.8	1,753.8	1,643.5	
Income before Income Taxes*	317.2	329.5	363.2	356.7	86.6	87.8	767.0	774.0	
Provision for Income Taxes*	96.2	102.6	136.8	134.2	31.5	37.3	264.5	274.1	
Net Income	\$221.0	\$226.9	\$226.4	\$222.5	\$55.1	\$50.5	\$502.5	\$499.9	
Percentage of Consolidated Net Income	44	% 45	% 45	% 45	% 11	% 10	% 100	% 100	%
Average Assets	\$75,534.7	\$72,513.3	\$26,487.2	\$24,513.4	\$12,143.5	\$12,587.0	\$114,165.4	\$109,613.7	

* Non-GAAP financial measures stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of \$13.1 million for 2016 and \$12.6 million for 2015. A reconciliation of revenue, net interest income and net interest margin on a GAAP basis to revenue, net interest income and net interest margin on an FTE basis (each of which is a non-GAAP financial measure) is provided on page 26.

Corporate & Institutional Services

C&IS net income totaled \$86.2 million in the current quarter compared to \$104.2 million in the prior-year quarter, a decrease of \$18.0 million, or 17%. Noninterest income was \$535.0 million in the current quarter, down \$12.0 million, or 2%, from \$547.0 million in the prior-year quarter, reflecting decreased other operating income and foreign

exchange trading income, partially offset

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REPORTING SEGMENTS (continued)

Corporate & Institutional Services (continued)

by higher trust, investment and other servicing fees. The following table provides a summary of C&IS trust, investment and other servicing fees.

Table 13: C&IS Trust, Investment and Other Servicing Fees

(\$ In Millions)	Three Months Ended June 30,			
	2016	2015	Change	
Custody and Fund Administration	\$293.3	\$293.6	\$(0.3)	— %
Investment Management	94.2	80.6	13.6	17
Securities Lending	26.8	26.8	—	—
Other	32.6	31.0	1.6	5
Total C&IS Trust, Investment and Other Servicing Fees	\$446.9	\$432.0	\$14.9	3 %

Custody and fund administration fees, the largest component of C&IS fees, are driven primarily by values of client AUC/A, transaction volumes and number of accounts. The asset values used to calculate these fees vary depending on the individual fee arrangements negotiated with each client. Custody fees related to asset values are client specific and are priced based on quarter-end or month-end values, values at the beginning of each quarter or average values for a month or quarter. The fund administration fees that are asset-value-related are priced using month-end, quarter-end, or average daily balances. Investment management fees, which are based generally on client assets under management, are based primarily on market values throughout a period.

Custody and fund administration fees were relatively unchanged from the prior-year quarter, as new business was partially offset by the unfavorable impact of equity markets and movements in foreign exchange rates. Investment management fees increased \$13.6 million, or 17%, due to lower money market mutual fund fee waivers. Money market mutual fund fee waivers in C&IS totaled \$0.1 million in the current quarter compared to \$13.6 million in the prior-year quarter.

Foreign exchange trading income totaled \$62.2 million in the current quarter, a decrease of \$9.6 million, or 13%, from \$71.8 million in the prior-year quarter. The decrease generally reflected lower client volumes as compared to the prior-year quarter.

Other noninterest income in C&IS totaled \$25.9 million in the current quarter, down \$17.3 million, or 40%, from \$43.2 million in the prior-year quarter, primarily reflecting impairment charges and the loss on sale related to the decision to exit a portion of a non-strategic loan and lease portfolio as well as impairment charges related to the residual value of certain aircraft and rail cars totaling \$18.9 million.

For the prior-year quarter, the presentation of average assets was changed to reflect a modification to the methodology by which assets are allocated among our reporting segments. For C&IS, this change in presentation resulted in an increase to average assets and a reduction in the net interest margin.

Net interest income stated on an FTE basis was \$141.2 million in the current quarter, up \$48.5 million, or 52%, from \$92.7 million in the prior-year quarter. The increase in net interest income was primarily attributable to an increase in the net interest margin to 0.82% from 0.53% in the prior-year quarter, primarily reflecting higher yields on earning assets. Additionally, the current quarter included a charge of \$2.7 million related to the residual value of certain aircraft and rail cars. The prior-year quarter included a charge of \$17.8 million related to the residual value of certain aircraft under leveraged lease agreements. The average earning assets totaled \$69.4 billion, down slightly from \$69.9 billion in the prior-year quarter. The earning assets in C&IS consisted primarily of intercompany assets and loans and leases. Funding sources were primarily comprised of non-U.S. custody-related interest-bearing deposits, which averaged \$46.4 billion in the current quarter, up slightly from \$45.6 billion in the prior-year quarter.

The provision for credit losses was a credit of \$0.8 million in the current quarter, compared with a provision of \$2.0 million in the prior-year quarter, reflecting continued improvement in credit quality.

Total C&IS noninterest expense, which includes the direct expense of the reporting segment, indirect expense allocations for product and operating support and indirect expense allocations for certain corporate support services,

totaled \$556.8 million in the current quarter, up \$68.6 million, or 14%, from \$488.2 million in the prior-year quarter. Noninterest expense in the current quarter included severance and related charges of \$7.4 million. Other operating expense in the current quarter included a charge in connection with an agreement to settle certain securities lending litigation of \$46.5 million, and charges related to contractual modifications associated with existing C&IS clients of \$18.6 million. Other operating expense in the prior-year quarter included

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REPORTING SEGMENTS (continued)

Corporate & Institutional Services (continued)

\$36.6 million of the charge related to voluntary cash contributions to certain constant dollar NAV funds allocated to C&IS. Excluding these charges, the increase in noninterest expense was primarily attributable to higher indirect expense allocations and compensation expense in the current quarter.

Wealth Management net income was \$118.8 million in the current quarter, up 3% from \$115.3 million in the prior-year quarter. Noninterest income was \$358.6 million, up slightly from \$354.6 million in the prior-year quarter, primarily reflecting higher trust, investment and other servicing fees, partially offset by lower foreign exchange trading income. Trust, investment and other servicing fees in Wealth Management totaled \$330.3 million in the current quarter, increasing \$5.5 million, or 2%, from \$324.8 million in the prior-year quarter. The following table provides a summary of Wealth Management trust, investment and other servicing fees.

Table 14: Wealth Management Trust, Investment and Other Servicing Fees

(\$ In Millions)	Three Months		
	Ended June 30,		
	2016	2015	Change
Central	\$130.2	\$128.2	\$2.0 2 %
East	84.5	85.9	(1.4) (2)
West	67.5	68.5	(1.0) (1)
Global Family Office	48.1	42.2	5.9 14
Total Wealth Management Trust, Investment and Other Servicing Fees	\$330.3	\$324.8	\$5.5 2 %

Wealth Management fee income is calculated primarily based on market values. The increase in Wealth Management fees, driven by Global Family office, was primarily attributable to the impact of lower money market mutual fund fee waivers, partially offset by unfavorable equity markets. Money market mutual fund fee waivers in Wealth Management totaled \$0.1 million in the current quarter compared to \$14.6 million in the prior-year quarter.

Foreign exchange trading income totaled \$1.6 million, down 47% from \$3.0 million in the prior-year quarter, primarily reflecting decreased client activity.

Other noninterest income of \$26.7 million in the current quarter was relatively unchanged from \$26.8 million in the prior-year quarter.

For the prior-year quarter, the presentation of average assets was changed to reflect a modification to the methodology by which assets are allocated among our reporting segments. This change in presentation did not have a significant impact on the Wealth Management reporting segment.

Net interest income stated on an FTE basis was \$160.2 million in the current quarter, up \$19.2 million, or 14%, from \$141.0 million in the prior-year quarter, primarily reflecting an increase in the net interest margin and higher levels of average earning assets. The net interest margin increased to 2.43% from 2.30% in the prior-year quarter. Average earning assets increased \$1.9 billion, or 8%, to \$26.5 billion from the prior-year quarter's \$24.6 billion. Earning assets and funding sources were primarily comprised of loans and domestic retail interest-bearing deposits, respectively. The provision for credit losses was a credit provision of \$2.2 million in the current quarter, compared with a credit provision of \$12.0 million in the prior-year quarter, which reflected continued improvement in credit quality.

Total noninterest expense, which includes the direct expense of the reporting segment, indirect expense allocations for product and operating support and indirect expense allocations for certain corporate support services, totaled \$330.3 million in the current quarter, compared to \$322.7 million in the prior-year quarter, an increase of \$7.6 million, or 2%, primarily attributable to increased indirect expense allocations and higher compensation expense in the current quarter. Noninterest expense in the current quarter included severance, other personnel and related charges of \$9.7 million. The prior-year quarter included a \$9.2 million of the charge related to voluntary cash contributions to certain constant dollar NAV funds allocated to Wealth Management.

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REPORTING SEGMENTS (continued)

Treasury and Other

Treasury and Other includes income and expense associated with the wholesale funding activities and the investment portfolios of the Corporation and the Bank, and certain corporate-based expenses, executive-level compensation and nonrecurring items not allocated to C&IS and Wealth Management.

Treasury and Other noninterest income totaled \$123.4 million in the current quarter, up \$20.3 million, or 20% ,from \$103.1 million in the prior-year quarter, primarily reflecting an increase in other operating income, a component of other noninterest income. Other operating income in the current quarter included the gain on the sale of 1.1 million Visa Inc. Class B common shares, net of the valuation adjustment to existing swap agreements, totaling \$118.2 million. The prior-year quarter included a gain on the sale of 1.0 million Visa Inc. Class B common shares totaling \$99.9 million.

For the prior-year quarter, the presentation of average assets was changed to reflect a modification to the methodology by which assets are allocated among our reporting segments. For Treasury and Other, this change in presentation resulted in a decrease to average assets and an increase in the net interest margin.

Net interest income decreased \$18.7 million, or 78%, to \$5.2 million in the current quarter, compared to \$23.9 million in the prior-year quarter. The decrease reflected a decline in the net interest margin, partially offset by higher levels of earning assets. Average earning assets increased \$1.4 billion to \$10.7 billion from the prior-year quarter's \$9.3 billion. Noninterest expense totaled \$37.9 million in the current quarter, down \$5.7 million, or 13%, from \$43.6 million in the prior-year quarter, primarily reflecting higher indirect expense allocations to C&IS and Wealth Management, partially offset by higher general overhead costs, including outside services and compensation expense, as compared to the prior-year quarter. Noninterest expense in the current quarter included severance and related charges of \$0.4 million.

SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS

Overview

Net income per diluted common share was \$2.10 for the six months ended June 30, 2016 and \$2.04 in the comparable prior-year period. Net income totaled \$502.5 million, up slightly as compared to \$499.9 million in the prior-year period. The performance in the current period produced an annualized return on average common equity of 11.8%, compared to 12.1% in the prior-year period. The annualized return on average assets was 0.9% in each of the respective periods.

The current period included a gain on the sale of 1.1 million Visa Inc. Class B common shares, net of the valuation adjustment to existing swap agreements, totaling \$118.2 million; a charge in connection with an agreement to settle certain securities lending litigation, which is subject to court approval, of \$46.5 million; charges related to contractual modifications associated with existing C&IS clients of \$18.6 million; severance, other personnel and related charges of \$17.5 million; impairment charges and the loss on sale related to the decision to exit a portion of a non-strategic loan and lease portfolio of \$14.1 million; and impairment charges related to the residual value of certain aircraft and rail cars of \$7.5 million. Excluding these items, net income per diluted common share, net income and return on average common equity were \$2.07, \$494.5 million and 11.7%, respectively.

The prior period included a net gain on the sale of 1.0 million Visa Inc. Class B common shares totaling \$99.9 million; voluntary cash contributions to certain constant dollar NAV funds of \$45.8 million; and the impairment of the residual value of certain aircraft under leveraged lease agreements of \$17.8 million. Excluding the gain and charges, net income per diluted common share, net income, and return on average common equity were \$1.95, \$477.4 million and 11.5%, respectively.

Revenue for the six months ended June 30, 2016 totaled \$2.51 billion, up \$116.3 million, or 5%, as compared to \$2.39 billion in the prior-year period, primarily driven by increased net interest income and trust, investment and other servicing fees, partially offset by lower foreign exchange trading income. Noninterest income was \$1.90 billion, up \$20.6 million, or 1%, from \$1.88 billion in the prior-year period.

Net interest income increased 19% to \$607.5 million in the current quarter as compared to \$511.8 million in the prior-year quarter, due to growth in earning assets and a higher net interest margin. Additionally, the current period

included a charge of \$2.7 million related to the residual value of certain aircraft and rail cars. The prior-year period included a charge of \$17.8 million related to the residual value of certain aircraft under leveraged lease agreements.

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Overview (continued)

The provision for credit losses was a credit of \$1.0 million in the current period, as compared to a credit provision of \$14.5 million in the prior-year period.

Noninterest expense totaled \$1.8 billion, up \$110.3 million, or 7%, from \$1.6 billion in the prior-year period. The current period included a charge in connection with an agreement to settle certain securities lending litigation, which is subject to court approval, of \$46.5 million; charges related to contractual modifications associated with existing C&IS clients of \$18.6 million; severance, other personnel and related charges of \$17.5 million. The prior-year quarter included the \$45.8 million charge related to voluntary cash contributions to certain constant dollar NAV funds.

Excluding the current- and prior-year period charges, noninterest expense increased \$73.5 million, or 5%, primarily attributable to higher compensation and outside services expense.

Noninterest Income

The components of noninterest income are provided below.

Table 15: Six Months Ended June 30 Noninterest Income

Noninterest Income (\$ In Millions)	Six Months Ended June 30,				
	2016	2015	Change		
Trust, Investment and Other Servicing Fees	\$1,525.4	\$1,484.3	\$41.1	3	%
Foreign Exchange Trading Income	124.9	146.4	(21.5)	(15))
Treasury Management Fees	32.2	32.4	(0.2)	(1))
Security Commissions and Trading Income	39.5	39.8	(0.3)	(1))
Other Operating Income	179.3	176.0	3.3	2	
Investment Security Gains (Losses), net	(2.1)	(0.3)	(1.8)		N/M
Total Noninterest Income	\$1,899.2	\$1,878.6	\$20.6	1	%

As illustrated in the following table, trust, investment and other servicing fees from C&IS increased \$41.0 million, or 5%, totaling \$880.3 million, compared to \$839.3 million a year ago.

Table 16: Six Months Ended June 30 C&IS Trust, Investment and Other Servicing Fees

C&IS Trust, Investment and Other Servicing Fees (\$ In Millions)	Six Months Ended June 30,				
	2016	2015	Change		
Custody and Fund Administration	\$579.7	\$570.7	\$9.0	2	%
Investment Management	183.3	157.0	26.3	17	
Securities Lending	49.4	48.4	1.0	2	
Other	67.9	63.2	4.7	7	
Total	\$880.3	\$839.3	\$41.0	5	%

Custody and fund administration fees, the largest component of C&IS fees, increased 2%, primarily driven by new business and partially offset by the unfavorable impact of equity markets and movements in foreign exchange rates. C&IS investment management fees increased 17%, primarily due to lower money market mutual fund fee waivers. Money market mutual fund fee waivers in C&IS totaled \$1.8 million, compared to waived fees of \$28.8 million in the prior-year period. Other fees in C&IS increased 7%, primarily due to new business related to investment risk and analytical services and increased other ancillary services.

As illustrated in the following table, trust, investment and other servicing fees from Wealth Management totaled \$645.1 million, relatively unchanged from \$645.0 million a year ago.

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income (continued)

Table 17: Six Months Ended June 30 Wealth Management Trust, Investment and Other Servicing Fees

(\$ In Millions)	Six Months Ended June 30,		
	2016	2015	Change
Wealth Management Trust, Investment and Other Servicing Fees			
Central	\$254.6	\$259.0	\$(4.4) (2)%
East	165.5	168.3	(2.8) (2)
West	131.4	135.3	(3.9) (3)
Global Family Office	93.6	82.4	11.2 14
Total	\$645.1	\$645.0	\$0.1 —%

The decrease in Wealth Management fees across the regions was primarily attributable to the impact of unfavorable equity markets and lower fee revenue from equity mutual funds, partially offset by lower money market mutual fund fee waivers. The increase in Global Family Office fees was primarily attributable to new business and lower money market mutual fund fee waivers. Money market mutual fund fee waivers in Wealth Management totaled \$6.1 million compared with \$32.3 million in the prior-year period.

Foreign exchange trading income decreased \$21.5 million, or 15%, and totaled \$124.9 million compared with \$146.4 million in the prior-year period. The decrease was attributable to lower client volumes compared to the prior-year period.

Other operating income increased 2% to \$179.3 million compared with \$176.0 million in the prior-year period. The components of other operating income are provided below.

Table 18: Six Months Ended June 30 Other Operating Income

(\$ In Millions)	Six Months Ended June 30,		
	2016	2015	Change
Other Operating Income			
Loan Service Fees	\$28.2	\$29.5	\$(1.3) (4)%
Banking Service Fees	25.2	23.7	1.5 7
Other Income	125.9	122.8	3.1 3
Total Other Operating Income	\$179.3	\$176.0	\$3.3 2%

The current-year period other income included the gain on the sale of 1.1 million Visa Inc. Class B common shares, net of the valuation adjustment to existing swap agreements, totaling \$118.2 million, offset by impairment charges and the loss on sale related to the decision to exit a portion of a non-strategic loan and lease portfolio as well as impairment charges related to the residual value of certain aircraft and rail cars of \$18.9 million. The prior-year period other income included a \$99.9 million net gain on the sale of a portion of the Visa Inc. Class B common shares held by the Corporation. Excluding these items, other operating income increased 5% from the prior-year period, primarily due to income associated with supplemental compensation plans.

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Net Interest Income

The following table presents an analysis of average balances and interest rate changes affecting net interest income.

Table 19: Six Months Ended June 30 Average Consolidated Balance Sheets with Analysis of Net Interest Income

NORTHERN TRUST CORPORATION						
Six Months Ended June 30,						
(Interest and Rate on a Fully Taxable Equivalent Basis)	2016			2015		
(\$ In Millions)	Interest	Average Balance	Rate ⁽⁵⁾	Interest	Average Balance	Rate ⁽⁵⁾
Average Earning Assets						
Federal Funds Sold and Securities Purchased under						
Agreements to Resell	\$8.0	\$1,754.5	0.92 %	\$2.4	\$1,037.8	0.46 %
Interest-Bearing Due from and Deposits with Banks ⁽¹⁾	34.0	9,442.4	0.72	42.8	10,970.0	0.79
Federal Reserve and Other Central Bank Deposits	49.6	20,413.9	1.80	31.2	19,875.8	0.32
Securities						
U.S. Government	40.2	6,687.8	1.21	26.1	4,685.1	1.12
Obligations of States and Political Subdivisions	4.2	329.6	2.57	3.9	116.9	6.71
Government Sponsored Agency	85.8	17,055.6	1.01	71.6	16,667.7	0.87
Other ⁽²⁾	81.8	15,707.0	1.05	64.3	15,397.5	0.84
Total Securities	212.0	39,780.0	1.07	165.9	36,867.2	0.91
Loans and Leases ⁽³⁾	406.2	34,224.7	2.39	357.9	32,512.9	2.22
Total Earning Assets	709.8	105,615.5	1.35	600.2	101,263.7	1.20
Allowance for Credit Losses Assigned to Loans and Leases	—	(194.5)	—	—	(262.9)	—
Cash and Due from Banks and Other Central Bank Deposits ⁽⁴⁾	—	2,143.2	—	—	1,859.7	—
Buildings and Equipment	—	442.9	—	—	446.7	—
Client Security Settlement Receivables	—	1,166.8	—	—	952.3	—
Goodwill	—	527.2	—	—	530.4	—
Other Assets	—	4,464.3	—	—	4,823.8	—
Total Assets	\$—	\$114,165.4	— %	\$—	\$109,613.7	— %
Average Source of Funds						
Deposits						
Savings and Money Market	\$5.6	\$15,204.3	0.07 %	\$4.9	\$15,534.1	0.06 %
Savings Certificates and Other Time	3.8	1,432.3	0.54	3.3	1,760.7	0.38
Non-U.S. Offices — Interest-Bearing	34.0	49,939.3	0.14	26.9	48,351.1	0.11
Total Interest-Bearing Deposits	43.4	66,575.9	0.13	35.1	65,645.9	0.11
Short-Term Borrowings	8.3	5,889.6	0.28	2.8	4,794.0	0.12
Senior Notes	23.4	1,496.8	3.15	23.5	1,497.1	3.15
Long-Term Debt	12.5	1,401.3	1.80	13.3	1,475.5	1.82
Floating Rate Capital Debt	1.6	277.3	1.17	1.1	277.2	0.83
Total Interest-Related Funds	89.2	75,640.9	0.24	75.8	73,689.7	0.21
Interest Rate Spread	—	—	1.11	—	—	0.99
Demand and Other Noninterest-Bearing Deposits	—	26,466.3	—	—	23,800.8	—
Other Liabilities	—	3,316.3	—	—	3,582.5	—
Stockholders' Equity	—	8,741.9	—	—	8,540.7	—
Total Liabilities and Stockholders' Equity	\$—	\$114,165.4	— %	\$—	\$109,613.7	— %
Net Interest Income/Margin (FTE Adjusted)	\$620.6	\$—	1.18 %	\$524.4	\$—	1.04 %
Net Interest Income/Margin (Unadjusted)	\$607.5	\$—	1.16 %	\$511.8	\$—	1.02 %

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Net Interest Income (continued)

ANALYSIS OF NET INTEREST INCOME CHANGES
DUE TO VOLUME AND RATE

(In Millions)	Six Months Ended		
	June 30, 2016/2015		
	Change Due To		
	Average	Rate	Total
	Balance		
Earning Assets (FTE)	\$28.1	\$81.5	\$109.6
Interest-Related Funds	2.1	11.3	13.4
Net Interest Income (FTE)	\$26.0	\$70.2	\$96.2

Interest-Bearing Due from and Deposits with Banks includes the interest-bearing component of Cash and Due from (1) Banks and Interest-Bearing Deposits with Banks as presented on the consolidated balance sheets in our periodic filings with the U.S. Securities and Exchange Commission.

Other securities include certain community development investments and Federal Home Loan Bank and Federal (2) Reserve stock of \$178.5 million, \$197.8 million and \$53.1 million, which are classified in other assets in the consolidated balance sheets as of June 30, 2016 and 2015.

(3) Average balances include nonaccrual loans. Lease financing receivable balances are reduced by deferred income.

(4) Cash and Due from Banks and Other Central Bank Deposits includes the non-interest-bearing component of Federal Reserve and Other Central Bank Deposits as presented on the consolidated balance sheets on page 29.

(5) Rate calculations are based on actual balances rather than the rounded amounts presented in the Average Consolidated Balance Sheets with Analysis of Net Interest Income.

Net Interest Income (FTE Adjusted), a non-generally accepted accounting principle (GAAP) financial measure, includes adjustments to a fully taxable equivalent basis for loans and securities. Such adjustments are based on a blended federal and state tax rate of 37.8% and 37.7% for the six months ended June 30, 2016 and 2015, Notes: respectively. Total taxable equivalent interest adjustments amounted to \$13.1 million and \$12.6 million for the six months ended June 30, 2016 and 2015, respectively. A reconciliation of net interest income and net interest margin on a GAAP basis to net interest income and net interest margin on an FTE basis (each of which is a non-GAAP financial measure) is provided on page 26.

Interest revenue on cash collateral positions is reported above within interest-bearing deposits with banks and within loans and leases. Interest expense on cash collateral positions is reported above within non-U.S. offices interest-bearing deposits. Related cash collateral received from and deposited with derivative counterparties is recorded net of the associated derivative contract within other assets and other liabilities, respectively.

Net interest income, stated on an FTE basis, totaled \$620.6 million, an increase of \$96.2 million, or 18%, from \$524.4 million reported in the prior-year period. The increase is the result of growth in earning assets and a higher net interest margin. Additionally, the current period included a charge of \$2.7 million related to the residual value of certain aircraft and rail cars. The prior-year quarter included a charge of \$17.8 million related to the residual value of certain aircraft under leveraged lease agreements. Average earning assets were \$105.6 billion, up \$4.3 billion, or 4%, from \$101.3 billion in the prior-year period, primarily attributable to higher levels of securities and loans. The net interest margin, on an FTE basis, increased to 1.18% from 1.04% in the prior-year period. Excluding the impairments, the net interest margin was 1.18% and 1.08%, primarily reflecting higher yields on earning assets.

Provision for Credit Losses

The provision for credit losses was a credit of \$1.0 million in the current-year period, compared to a credit provision of \$14.5 million in the prior-year period. Net charge-offs in the current-year period totaled \$5.1 million resulting from \$10.2 million of charge-offs and \$5.1 million of recoveries, compared to net charge-offs of \$7.2 million in the prior-year period resulting from \$13.6 million of charge-offs and \$6.4 million of recoveries. The current period

provision reflects improved credit quality. Residential real estate loans continued to reflect weakness relative to the overall portfolio, accounting for 65% and 76% of total nonperforming loans and leases at June 30, 2016 and 2015, respectively. Loan balances within the private client, commercial and institutional and commercial real estate loan portfolios increased in the current period, while the residential real estate loan balance decreased. For a fuller discussion of the consolidated allowance and provision for credit losses refer to the “Asset Quality” section beginning on page 22.

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Expense

Noninterest expense totaled \$1.75 billion for the current period, up \$110.3 million, or 7%, compared to \$1.64 billion in the prior-year period. The components of noninterest expense are provided below.

Table 20: Six Months Ended June 30 Noninterest Expense

Noninterest Expense (\$ In Millions)	Six Months Ended June 30,			Change %
	2016	2015	Change	
Compensation	\$768.3	\$716.2	\$52.1	7 %
Employee Benefits	142.8	146.1	(3.3)	(2)
Outside Services	308.9	282.3	26.6	9
Equipment and Software	232.2	224.7	7.5	3
Occupancy	86.2	86.0	0.2	—
Other Operating Expense	215.4	188.2	27.2	15
Total Noninterest Expense	\$1,753.8	\$1,643.5	\$110.3	7 %

Compensation expense, the largest component of noninterest expense increased to \$768.3 million from the prior-year period's \$716.2 million. Compensation expense in the current period included severance and related charges of \$13.0 million. Excluding the severance and related charges, compensation expense increased \$39.1 million, or 5%, compared to the prior-year quarter, primarily reflecting higher staff levels and base pay adjustments, partially offset by lower performance-based incentive compensation.

Employee benefit expense decreased to \$142.8 million from \$146.1 million in the prior-year period. Employee benefits expense in the current period included severance and related charges of \$1.5 million. Excluding the severance and related charges, employee benefits expense decreased 3% compared to the prior-year period, primarily reflecting a decrease in pension expense.

Outside services expense equaled \$308.9 million, up from \$282.3 million in the prior-year period. Expense for outside services in the current period included severance and related charges of \$0.7 million. Excluding the severance and related charges, expense for outside services increased \$25.9 million, or 9%, compared to the prior-year period, primarily reflecting increased technical services and consulting services, partially offset by a reduction in third party advisory fees.

Equipment and software expense totaled \$232.2 million, up \$7.5 million, or 3% from \$224.7 million in the prior-year period, reflecting increased software amortization.

Occupancy expense equaled \$86.2 million, relatively unchanged from \$86.0 million in the prior-year period.

Other operating expense totaled \$215.4 million, up \$27.2 million, or 15%, from \$188.2 million in the prior-year period. The components of other operating expense are provided below.

Table 21: Six Months Ended June 30 Other Operating Expense

Other Operating Expense (\$ In Millions)	Six Months Ended June 30,			Change %
	2016	2015	Change	
Business Promotion	\$48.0	\$49.1	\$(1.1)	(2)
Staff Related	21.8	19.1	2.7	14
FDIC Insurance Premiums	13.3	11.6	1.7	15
Other Intangibles Amortization	4.3	6.7	(2.4)	(35)
Other Expenses	128.0	101.7	26.3	26
Total Other Operating Expense	\$215.4	\$188.2	\$27.2	15 %

Other operating expense in the current period included a charge in connection with an agreement to settle certain securities lending litigation of \$46.5 million, charges related to contractual modifications associated with existing C&IS clients of \$18.6 million, and other personnel charges of \$2.3 million recorded in the current quarter. The prior-year period included a charge related to voluntary cash contributions to certain constant dollar NAV funds totaling \$45.8 million. Excluding these charges, other operating

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Expense (continued)

expense was \$148.0 million, up \$5.6 million or 4%, compared to \$142.4 million in the prior-year period, primarily due to increases in various other expenses, including higher supplemental compensation plans expense.

Provision for Income Taxes

Income tax expense was \$251.4 million for the six months ended June 30, 2016, representing an effective tax rate of 33.3%. The provision for income taxes was \$261.5 million for the six months ended June 30, 2015, representing an effective tax rate of 34.4%.

CONSOLIDATED BALANCE SHEETS

Total assets were \$121.5 billion and \$116.7 billion at June 30, 2016 and December 31, 2015, respectively, and averaged \$114.9 billion in the current quarter compared with \$111.7 billion in the quarter ended June 30, 2015. Average balances are considered to be a better measure of balance sheet trends, as period-end balances can be impacted by deposit and withdrawal activity involving large client balances. Loans and leases totaled \$34.6 billion and \$33.2 billion at June 30, 2016 and December 31, 2015, respectively, and averaged \$34.5 billion in the current quarter, up 5% from \$32.9 billion in the quarter ended June 30, 2015. Securities, inclusive of Federal Reserve stock, Federal Home Loan Bank stock, and certain community development investments, which are classified in other assets in the consolidated balance sheets, totaled \$41.5 billion and \$38.0 billion at June 30, 2016 and December 31, 2015, respectively, and averaged \$40.8 billion for the current quarter, up 7% from \$37.9 billion in the quarter ended June 30, 2015. In aggregate, the categories of federal funds sold and securities purchased under agreements to resell, interest-bearing due from and deposits with banks, and Federal Reserve and other central bank deposits totaled \$35.2 billion and \$35.7 billion at June 30, 2016 and December 31, 2015, respectively, and averaged \$31.4 billion in the current quarter, down 5% from the quarter ended June 30, 2015 balance, primarily reflecting decreased interest-bearing due from and deposits with banks. Interest-bearing client deposits at June 30, 2016 and December 31, 2015, totaled \$67.6 billion and \$66.7 billion, respectively, and averaged \$66.9 billion in the current quarter compared to \$66.8 billion in the quarter ended June 30, 2015. Noninterest-bearing client deposits at June 30, 2016 and December 31, 2015 totaled \$31.5 billion and \$30.2 billion, respectively, and averaged \$26.7 billion in the current quarter, up 5% from \$25.6 billion in the quarter ended June 30, 2015.

Total stockholders' equity at June 30, 2016, was \$9.0 billion compared to \$8.7 billion at December 31, 2015, and averaged \$8.8 billion for the current quarter, up 2% from \$8.6 billion for the quarter ended June 30, 2015. The increase in average stockholders' equity compared to the prior-year quarter was primarily attributable to earnings, partially offset by dividend declarations and the repurchase of common stock pursuant to the Corporation's share repurchase program.

During the three and six months ended June 30, 2016, the Corporation declared cash dividends totaling \$83.4 million and \$167.3 million to common stockholders, and cash dividends totaling \$5.8 million and \$11.7 million to preferred stockholders, respectively. During the three and six months ended June 30, 2016, the Corporation repurchased 1,969,228 shares of common stock, including 2,239 shares withheld related to share-based compensation, at a total cost of \$140.8 million (\$71.52 average price per share) and 4,279,845 shares of common stock, including 387,843 shares withheld related to share-based compensation, at a total cost of \$281.1 million (\$65.68 average price per share), respectively.

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CAPITAL RATIOS

The capital ratios of Northern Trust and its principal subsidiary bank, The Northern Trust Company, remained strong at June 30, 2016, with all ratios applicable to classification as “well capitalized” under U.S. regulatory requirements having been exceeded.

The table below provides capital ratios for Northern Trust Corporation and The Northern Trust Company determined by Basel III phased in requirements.

Table 22: Regulatory Capital Ratios

Capital Ratios — Northern Trust Corporation	June 30, 2016			March 31, 2016			June 30, 2015		
	Advanced	Standardized		Advanced	Standardized		Advanced	Standardized	
	Approach	Approach		Approach	Approach		Approach	Approach	
Common Equity Tier 1	11.5%	10.6%	%	11.6%	10.6%	%	12.0%	10.7%	%
Tier 1	12.0%	11.0%	%	12.1%	11.1%	%	12.6%	11.2%	%
Total	13.5%	12.7%	%	13.6%	12.8%	%	14.4%	13.2%	%
Tier 1 Leverage	7.4%	7.4%	%	7.4%	7.4%	%	7.6%	7.6%	%
Supplementary Leverage ⁽¹⁾	6.1%	N/A		6.1%	N/A		6.3%	N/A	

Capital Ratios — The Northern Trust Company	June 30, 2016			March 31, 2016			June 30, 2015		
	Advanced	Standardized		Advanced	Standardized		Advanced	Standardized	
	Approach	Approach		Approach	Approach		Approach	Approach	
Common Equity Tier 1	11.6%	10.4%	%	11.5%	10.4%	%	11.6%	10.1%	%
Tier 1	11.6%	10.4%	%	11.5%	10.4%	%	11.6%	10.1%	%
Total	13.3%	12.3%	%	13.2%	12.2%	%	13.2%	11.9%	%
Tier 1 Leverage	7.0%	7.0%	%	6.9%	6.9%	%	6.8%	6.8%	%
Supplementary Leverage ⁽¹⁾	5.8%	N/A		6.0%	N/A		5.6%	N/A	

⁽¹⁾ Effective January 1, 2018, Northern Trust will be subject to a minimum supplementary leverage ratio of 3 percent.

STATEMENTS OF CASH FLOWS

Net cash used in operating activities of \$513.1 million for the six months ended June 30, 2016, was primarily attributable to increased net collateral deposited with counterparties and other operating activities, partially offset by period earnings. For the six months ended June 30, 2015, net cash provided by operating activities of \$1.5 billion, was primarily attributable to a reduction of net collateral deposited with derivative counterparties, as well as earnings, including the impact of non-cash charges such as amortization of computer software, partially offset by increased other operating activities.

Net cash used in investing activities of \$4.9 billion for the six months ended June 30, 2016, was primarily attributable to net purchases of securities available for sale and held to maturity and increased loans and leases. For the six months ended June 30, 2015, net cash used in investing activities of \$7.7 billion, was primarily attributable to net purchases of securities available for sale and held to maturity, as well as increased interest bearing deposits with banks, loans and leases, and client security settlement receivables, partially offset by decreases within other investing activities.

Net cash provided by financing activities of \$4.1 billion for the six months ended June 30, 2016, was primarily attributable to higher levels of total deposits and increased short-term other borrowings, partially offset by the repurchase of common stock pursuant to the Corporation’s share repurchase program and cash dividends paid to common stockholders. The increase in total deposits was attributable to higher levels of non-U.S. office interest-bearing client deposits and demand and other noninterest-bearing client deposits. For the six months ended June 30, 2015, net cash provided by financing activities totaled \$10.2 billion, primarily reflecting increased levels of total deposits and increased short-term other borrowings, partially offset by lower securities sold under agreements to repurchase and federal funds purchased. The increase in total deposits is attributable to higher levels of interest-bearing and noninterest-bearing non-U.S. office client and demand and other noninterest-bearing client deposits.

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ASSET QUALITY

Securities Portfolio

Northern Trust maintains a high quality securities portfolio, with 85% of the combined available for sale, held to maturity, and trading account portfolios at June 30, 2016, comprised of U.S. Treasury and government sponsored agency securities and triple-A rated corporate notes, asset-backed securities, covered bonds, sub-sovereign, supranational, sovereign and non-U.S. agency bonds, commercial mortgage-backed securities and obligations of states and political subdivisions. The remaining portfolio was comprised of corporate notes, asset-backed securities, negotiable certificates of deposit, obligations of states and political subdivisions, auction rate securities and other securities, of which as a percentage of the total securities portfolio, 8% was rated double-A, 4% was rated below double-A, and 3% was not rated by Standard and Poor's or Moody's Investors Service (primarily negotiable certificates of deposits of banks whose long term ratings are at least A).

Net unrealized gains within the investment securities portfolio totaled \$129.5 million at June 30, 2016, comprised of \$203.4 million and \$73.9 million of gross unrealized gains and losses, respectively. Of the unrealized losses on securities at June 30, 2016, the largest component was \$29.5 million of unrealized losses in securities classified as "other," related to securities primarily purchased at a premium or par by Northern Trust for compliance with the Community Reinvestment Act (CRA). Unrealized losses on these CRA-related securities were attributable to yields that were below market rates for the purpose of supporting institutions and programs that benefit low- to moderate-income communities within Northern Trust's market area. Unrealized losses of \$24.2 million related to government sponsored agency securities were primarily attributable to changes in market rates since their purchase. Also, \$11.1 million of the unrealized losses related to corporate debt securities, primarily reflecting higher market rates, and wider credit spreads since purchase; as of June 30, 2016, 31% of the corporate debt portfolio was backed by guarantees provided by U.S. and non-U.S. governmental entities.

For the three and six months ended June 30, 2016, charges of \$2.4 million were recorded relating to the other-than-temporary impairment (OTTI) of certain CRA eligible securities. There were no OTTI losses for the three or six months ended June 30, 2015. Northern Trust has evaluated all securities with unrealized losses for possible OTTI in accordance with GAAP and Northern Trust's security impairment review policy.

Northern Trust participates in the repurchase agreement market as a relatively low cost alternative for short-term funding. Securities purchased under agreements to resell and securities sold under agreements to repurchase are accounted for as collateralized financings and recorded at the amounts at which the securities were acquired or sold plus accrued interest. To minimize potential credit risk associated with these transactions, the fair value of the securities purchased or sold is monitored, limits are set on exposure with counterparties, and the financial condition of counterparties is regularly assessed. It is Northern Trust's policy to take possession, either directly or via third-party custodians, of securities purchased under agreements to resell. Securities sold under agreements to repurchase are held by the counterparty until their repurchase.

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ASSET QUALITY (continued)

Nonperforming Loans and Leases and Other Real Estate Owned

Nonperforming assets consist of nonperforming loans and leases and other real estate owned (OREO). OREO is comprised of commercial and residential properties acquired in partial or total satisfaction of loans.

The following table provides the amounts of nonperforming loans and leases, by loan and lease segment and class, and of OREO that were outstanding at the dates shown, as well as the balance of loans that was delinquent 90 days or more and still accruing interest. The balance of loans delinquent 90 days or more and still accruing interest can fluctuate widely based on the timing of cash collections, renegotiations and renewals.

Table 23: Nonperforming Assets

(\$ In Millions)	June 30, 2016	March 31, 2016	June 30, 2015
Nonperforming Loans and Leases			
Commercial			
Commercial and Institutional	\$38.5	\$41.7	\$23.4
Commercial Real Estate	12.2	13.5	26.0
Total Commercial	50.7	55.2	49.4
Personal			
Residential Real Estate	99.3	108.5	158.2
Private Client	2.2	0.3	1.1
Total Personal	101.5	108.8	159.3
Total Nonperforming Loans and Leases	152.2	164.0	208.7
Other Real Estate Owned	14.2	10.4	10.1
Total Nonperforming Assets	166.4	174.4	218.8
90 Day Past Due Loans Still Accruing	\$8.3	\$10.2	\$14.9
Nonperforming Loans and Leases to Total Loans and Leases	0.44	%	0.48
Coverage of Loan and Lease Allowance to Nonperforming Loans and Leases	1.3	x	1.2x

Nonperforming assets of \$166.4 million as of June 30, 2016, reflected improved credit quality across the portfolio from the prior year. The June 30, 2016 and March 31, 2016, loan portfolios reflected a reclassification of a non-performing loan from the residential real estate loan class to the commercial and institutional loan class due to a change in the obligor as a result of restructuring the loan as of December 31, 2015. In addition to the negative impact on net interest income and the risk of credit losses, nonperforming assets also increase operating costs due to the expense associated with collection efforts. Changes in the level of nonperforming assets may be indicative of changes in the credit quality of one or more loan classes. Changes in credit quality impact the allowance for credit losses through the resultant adjustment of the specific allowance and of the qualitative factors used in the determination of the inherent allowance levels within the allowance for credit losses.

Northern Trust's underwriting standards do not allow for the origination of loan types generally considered to be high risk in nature, such as option adjustable rate mortgages, subprime loans, loans with initial "teaser" rates and loans with excessively high loan-to-value ratios. Residential real estate loans consist of first lien mortgages and equity credit lines, which generally require loan-to-collateral values of no more than 65% to 75% at inception. Revaluations of supporting collateral are obtained upon refinancing or default or when otherwise considered warranted. Collateral revaluations for mortgages are performed by independent third parties.

The commercial real estate class consists of commercial mortgages and construction, acquisition and development loans extended to experienced investors well known to Northern Trust. Underwriting standards generally reflect conservative loan-to-value ratios and debt service coverage requirements. Recourse to borrowers through guarantees is also commonly required.

Provision and Allowance for Credit Losses

The provision for credit losses is the charge to current-period earnings that is determined by management, through a disciplined credit review process, to be the amount needed to maintain the allowance for credit losses at an appropriate

level to absorb probable credit losses that have been identified with specific borrower relationships (specific loss component) and for probable losses that

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ASSET QUALITY (continued)

Provision and Allowance for Credit Losses (continued)

are believed to be inherent in the loan and lease portfolios, undrawn commitments and standby letters of credit (inherent loss component). Control processes and analyses employed to evaluate the appropriateness of the allowance for credit losses are reviewed on at least an annual basis and modified as necessary.

The amount of specific allowance is determined through an individual evaluation of loans and lending-related commitments considered impaired that is based on expected future cash flows, collateral value and other factors that may impact the borrower's ability to pay. The inherent component of the allowance addresses exposure relating to probable but unidentified credit-related losses. The inherent component of the allowance also covers the credit exposure associated with undrawn loan commitments and standby letters of credit. To estimate the allowance for credit losses on these instruments, management uses conversion rates to determine the estimated amount that will be drawn and assigns an allowance factor determined in accordance with the methodology utilized for outstanding loans. The provision for credit losses was a credit of \$3.0 million in the current quarter, compared to a credit provision of \$10.0 million in the prior-year quarter. Net charge-offs were \$2.4 million, resulting from \$4.9 million of charge-offs and \$2.5 million of recoveries, compared to \$2.6 million of net charge-offs in the prior-year quarter, resulting from \$6.1 million of charge-offs and \$3.5 million of recoveries. Residential real estate loans accounted for 65% and 76% of total nonperforming loans and leases at June 30, 2016 and 2015, respectively.

Note 7 to the consolidated financial statements includes a table that details the changes in the allowance for credit losses during the three and six months ended June 30, 2016 and 2015 due to charge-offs, recoveries and provisions for credit losses.

The following table shows the specific portion of the allowance and the inherent portion of the allowance and its components by loan and lease segment and class.

Table 24: Allocation of the Allowance for Credit Losses

(\$ In Millions)	June 30, 2016		March 31, 2016		June 30, 2015	
	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans
Specific Allowance	\$1.3	— %	\$1.4	— %	\$15.3	— %
Allocated Inherent Allowance						
Commercial						
Commercial and Institutional	38.9	29	38.6	29	66.7	27
Commercial Real Estate	70.5	11	74.2	12	67.8	11
Lease Financing, net	1.7	1	1.1	1	3.6	3
Non-U.S.	—	6	—	5	2.2	5
Other	2.5	1	—	1	—	1
Total Commercial	113.6	48	113.9	48	140.3	47
Personal						
Residential Real Estate	91.0	24	95.2	25	99.2	28
Private Client	21.2	28	19.5	27	19.4	25
Other	—	—	2.6	—	—	—
Total Personal	112.2	52	117.3	52	118.6	53
Total Allocated Inherent Allowance	\$225.8	100 %	\$231.2	100 %	\$258.9	100 %
Total Allowance for Credit Losses	\$227.1		\$232.6		\$274.2	
Allowance Assigned to						
Loans and Leases	\$192.0		\$195.6		\$257.3	
Undrawn Commitments and Standby Letters of Credit	35.1		37.0			