NORTHERN TRUST CORP
Form 10-Q
July 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2018

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 incorporation or organization)	(I.R.S. Employer Identification No.)
50 South LaSalle Street Chicago, Illinois	60603
(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 x 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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

223,281,786 Shares – $1.66 2/3 Par Value

(Shares of Common Stock Outstanding on June 30, 2018)

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NORTHERN TRUST CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018
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CONSOLIDATED FINANCIAL HIGHLIGHTS (UNAUDITED)

CONDENSED INCOME STATEMENTS (In Millions)	Three Months Ended June 30, 2018	2017	% Change [1]	Six Months Ended June 30, 2018	2017	% Change [1]
Noninterest Income	$1,092.8	$979.7	12 %	$2,184.8	$1,910.6	14 %
Net Interest Income	413.3	341.5	21	797.3	695.0	15
Provision for Credit Losses	1.5	(7.0)	N/M	(1.5)	(8.0)	N/M
Noninterest Expense	997.4	937.4	6	1,992.7	1,831.9	9
Income before Income Taxes	507.2	390.8	30	990.9	781.7	27
Provision for Income Taxes	116.8	122.9	(5)	218.9	237.7	(8)
Net Income	$390.4	$267.9	46 %	$772.0	$544.0	42 %
PER COMMON SHARE						
Net Income — Basic	$1.69	$1.12	51%	$3.28	$2.22	48%
— Diluted	1.68	1.12	50	3.26	2.21	48
Cash Dividends Declared Per Common Share	0.42	0.38	11	0.84	0.76	11
Book Value — End of Period (EOP)	42.44	40.20	6	42.44	40.20	6
Market Price — EOP	102.89	97.21	6	102.89	97.21	6

SELECTED BALANCE SHEET DATA (In Millions)

	June 30, 2018	December 31, 2017	% Change [1]
End of Period:			
Assets	$135,106.2	$138,590.5	(3)%
Earning Assets	124,105.2	129,656.6	(4)
Deposits	106,524.9	112,390.8	(5)
Stockholders' Equity	10,357.6	10,216.2	1

	Three Months Ended June 30, 2018	2017	% Change [1]	Six Months Ended June 30, 2018	2017	% Change [1]
Average Balances:						
Assets	$123,866.7	$118,400.7	5 %	$124,178.3	$117,443.8	6 %
Earning Assets	114,414.6	109,906.5	4	115,046.9	109,431.8	5
Deposits	95,630.8	96,739.2	(1)	96,907.1	95,841.4	1
Stockholders' Equity	10,202.1	9,976.0	2	10,170.1	9,884.2	3

CLIENT ASSETS (In Billions)	June 30, 2018	December 31, 2017	% Change [1]
Assets Under Custody/Administration [2]	$10,712.5	$10,722.6	— %
Assets Under Custody	8,101.9	8,084.6	—
Assets Under Management	1,148.9	1,161.0	(1)

(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 Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Financial Ratios:				
Return on Average Common Equity	16.5%	11.6%	16.3%	11.6%
Return on Average Assets	1.26	0.91	1.25	0.93
Dividend Payout Ratio	25.0	33.9	25.8	34.4
Net Interest Margin [1]	1.48	1.28	1.43	1.31

	June 30, 2018		December 31, 2017	
	Advanced Approach	Standardized Approach	Advanced Approach	Standardized Approach
Capital Ratios:				
Northern Trust Corporation				
Common Equity Tier 1	13.3%	12.4%	13.5%	12.6%
Tier 1	14.6	13.6	14.8	13.8
Total	16.5	15.6	16.7	15.8
Tier 1 Leverage	7.7	7.7	7.8	7.8
Supplementary Leverage	6.8	N/A	6.8	N/A
The Northern Trust Company				
Common Equity Tier 1	13.8%	12.6%	13.7%	12.6%
Tier 1	13.8	12.6	13.7	12.6
Total	15.4	14.3	15.4	14.3
Tier 1 Leverage	7.1	7.1	7.0	7.0
Supplementary Leverage	6.2	N/A	6.1	N/A

(1) 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 28.

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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 wealth management, asset servicing, asset management and banking solutions to corporations, institutions, families and individuals. 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 terms "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 $1.68 in the current quarter, up from $1.12 in the second quarter of 2017. Net income was $390.4 million in the current quarter as compared to $267.9 million in the prior-year quarter. Annualized return on average common equity was 16.5% in the current quarter and 11.6% in the prior-year quarter. The annualized return on average assets was 1.26% in the current quarter as compared to 0.91% in the prior-year quarter.

Revenue of $1.51 billion in the current quarter was up $184.9 million, or 14%, from $1.32 billion in the prior-year quarter.

Noninterest income increased $113.1 million, or 12%, to $1.09 billion from $979.7 million in the prior-year quarter, reflecting higher trust, investment and other servicing fees and foreign exchange trading income, partially offset by lower other operating income.

Net interest income increased $71.8 million, or 21%, to $413.3 million in the current quarter as compared to $341.5 million in the prior-year quarter, primarily resulting from a higher net interest margin and an increase in earning assets.

The provision for credit losses was $1.5 million in the current quarter, as compared to a provision credit of $7.0 million in the prior-year quarter.

Noninterest expense totaled $997.4 million in the current quarter, up $60.0 million, or 6%, from $937.4 million in the prior-year quarter, primarily attributable to higher compensation, outside services, employee benefits, and equipment and software expense, partially offset by lower other operating expense.

The provision for income taxes in the current quarter totaled $116.8 million, representing an effective tax rate of 23.0%. The provision for income taxes in the prior-year quarter totaled $122.9 million, representing an effective tax rate of 31.4%.

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income

The components of noninterest income are provided below.

Table 1: Noninterest Income

Noninterest Income	Three Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Trust, Investment and Other Servicing Fees	$942.9	$848.2	$94.7	11 %
Foreign Exchange Trading Income	78.9	49.9	29.0	58
Treasury Management Fees	13.5	14.9	(1.4)	(10)
Security Commissions and Trading Income	26.1	24.1	2.0	8
Other Operating Income	31.4	43.0	(11.6)	(27)
Investment Security (Losses) Gains, net	—	(0.4)	0.4	N/M
Total Noninterest Income	$1,092.8	$979.7	$113.1	12 %

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 calculations on which fees are based are performed on a monthly or quarterly basis in arrears. For a further discussion of trust, investment and other servicing fees and how they are derived, refer to the “Reporting Segments” section.

When considering the impact of markets on the Corporation’s results, the following tables present selected market indices and the percentage changes year over year.

Table 2: Equity Market Indices

	Daily Averages Three Months Ended June 30,			Period-End As of June 30,		
	2018	2017	Change	2018	2017	Change
S&P 500	2,702	2,397	13 %	2,718	2,423	12 %
MSCI EAFE (U.S. dollars)	2,018	1,856	9	1,959	1,883	4
MSCI EAFE (local currency)	1,144	1,099	4	1,132	1,096	3

Table 3: Fixed Income Market Indices

	As of June 30,		
	2018	2017	Change
Barclays Capital U.S. Aggregate Bond Index	2,013	2,021	— %
Barclays Capital Global Aggregate Bond Index	478	471	1

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. The following table presents AUC/A by reporting segment.

Table 4: Assets Under Custody / Administration

Assets Under Custody / Administration ($ In Billions)	June 30, 2018	March 31, 2018	June 30, 2017	Change Q2-18/Q1-18	Change Q2-18/Q2-17
Corporate & Institutional	$10,051.9	$10,131.7	$8,690.8	(1)%	16 %
Wealth Management	660.6	654.0	603.4	1	9
Total Assets Under Custody / Administration	$10,712.5	$10,785.7	$9,294.2	(1)%	15 %

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)
Noninterest Income (continued)

The following table presents Northern Trust's assets under custody, a component of AUC/A, by reporting segment.
Table 5: Assets Under Custody

Assets Under Custody ($ In Billions)	June 30, 2018	March 31, 2018	June 30, 2017	Change Q2-18/Q1-18	Change Q2-18/Q2-17
Corporate & Institutional	$7,451.1	$7,466.5	$6,786.3	— %	10 %
Wealth Management	650.8	645.2	593.3	1	10
Total Assets Under Custody	$8,101.9	$8,111.7	$7,379.6	— %	10 %

The 10% increase in consolidated assets under custody from $7.38 trillion as of June 30, 2017 to $8.10 trillion as of June 30, 2018 primarily reflected the impact of favorable markets and new business.
The following table presents the allocation of Northern Trust's custodied assets by reporting segment.
Table 6: Allocation of Assets Under Custody

	June 30, 2018			March 31, 2018			June 30, 2017		
Assets Under Custody	C&IS	WM	Total	C&IS	WM	Total	C&IS	WM	Total
Equities	45%	58%	46%	45%	58%	46%	45%	56%	46%
Fixed Income	38	18	36	37	18	36	38	20	37
Cash and Other Assets	15	24	16	15	24	16	15	24	15
Securities Lending Collateral	2	—	2	3	—	2	2	—	2

The following table presents Northern Trust's assets under management by reporting segment.
Table 7: Assets Under Management

Assets Under Management ($ In Billions)	June 30, 2018	March 31, 2018	June 30, 2017	Change Q2-18/Q1-18	Change Q2-18/Q2-17
Corporate & Institutional	$862.1	$878.3	$762.7	(2)%	13 %
Wealth Management	286.8	287.4	266.1	—	8
Total Assets Under Management	$1,148.9	$1,165.7	$1,028.8	(1)%	12 %

The 12% increase in consolidated assets under management from $1.03 trillion at June 30, 2017 to $1.15 trillion as of June 30, 2018 was primarily due to favorable markets and net inflows in securities lending collateral and cash.
The following table presents Northern Trust's assets under management by investment type.
Table 8: Assets Under Management by Investment Type

($ In Billions)	June 30, 2018	March 31, 2018	June 30, 2017
Equities	$587.8	$583.7	$531.3
Fixed Income	177.4	177.7	169.5
Cash and Other Assets	209.9	216.8	197.0
Securities Lending Collateral	173.8	187.5	131.0
Total Assets Under Management	$1,148.9	$1,165.7	$1,028.8

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)
Noninterest Income (continued)

The following table presents the allocation of Northern Trust's assets under management by reporting segment.
Table 9: Allocation of Assets Under Management

	June 30, 2018			March 31, 2018			June 30, 2017		
Assets Under Management	C&IS	WM	Total	C&IS	WM	Total	C&IS	WM	Total
Equities	51%	52%	51%	50%	52%	50%	52%	49%	52%
Fixed Income	12	25	16	12	25	15	13	26	16
Cash and Other Assets	17	23	18	17	23	19	18	25	19
Securities Lending Collateral	20	—	15	21	—	16	17	—	13

The following table presents activity in consolidated assets under management by investment type.
Table 10: Activity in Consolidated Assets Under Management by Investment Type

	Three Months Ended				
($ In Billions)	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Beginning Balance of AUM	$1,165.7	$1,161.0	$ 1,125.1	$ 1,028.8	$1,001.3
Inflows by Investment Type					
Equity	44.7	44.2	63.0	51.2	36.3
Fixed Income	17.5	17.4	23.0	19.8	11.6
Cash & Other Assets	124.2	114.4	116.3	101.6	98.2
Securities Lending Collateral	22.4	68.1	32.4	45.5	24.9
Total Inflows	208.8	244.1	234.7	218.1	171.0
Outflows by Investment Type					
Equity	(42.4)	(47.8)	(67.7)	(41.0)	(38.6)
Fixed Income	(20.4)	(24.0)	(20.7)	(13.0)	(10.5)
Cash & Other Assets	(130.6)	(117.4)	(111.8)	(83.0)	(99.5)
Securities Lending Collateral	(36.1)	(48.3)	(26.8)	(14.4)	(17.5)
Total Outflows	(229.5)	(237.5)	(227.0)	(151.4)	(166.1)
Net Inflows / (Outflows)	(20.7)	6.6	7.7	66.7	4.9
Market Performance, Currency & Other					
Market Performance & Other	11.5	(4.6)	27.9	26.6	18.2
Currency	(7.6)	2.7	0.3	3.0	4.4
Total Market Performance, Currency & Other	3.9	(1.9)	28.2	29.6	22.6
Ending Balance of AUM	$1,148.9	$1,165.7	$ 1,161.0	$ 1,125.1	$1,028.8

Foreign exchange trading income totaled $78.9 million in the current quarter, up $29.0 million, or 58%, compared to $49.9 million in the prior-year quarter. The increase was primarily due to higher client volumes and increased foreign exchange swap activity in Treasury as compared to the prior-year quarter.

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income (continued)

Other operating income totaled $31.4 million in the current quarter, down $11.6 million, or 27%, compared to $43.0 million in the prior-year quarter, primarily due to non-recurring net gains on hedging activity recognized in the prior-year quarter and a valuation adjustment to existing swap agreements related to Visa Inc. Class B common shares recorded in other income in the current quarter. The components of other operating income are provided below.

Table 11: Other Operating Income

Other Operating Income	Three Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Loan Service Fees	$12.7	$13.3	$(0.6)	(4)%
Banking Service Fees	11.7	12.6	(0.9)	(7)
Other Income	7.0	17.1	(10.1)	(59)
Total Other Operating Income	$31.4	$43.0	$(11.6)	(27)%

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 12: Average Consolidated Balance Sheets with Analysis of Net Interest Income

(Interest and Rate on a Fully Taxable Equivalent Basis)	NORTHERN TRUST CORPORATION SECOND QUARTER 2018			2017		
($ In Millions)	Interest	Average Balance	Rate (5)	Interest	Average Balance	Rate (5)
Average Earning Assets						
Federal Reserve and Other Central Bank Deposits	$48.8	$24,512.8	0.80 %	$33.8	$22,570.0	0.60 %
Interest-Bearing Due from and Deposits with Banks (1)	18.3	6,556.9	1.12	14.1	7,653.9	0.74
Federal Funds Sold and Securities Purchased under Agreements to Resell	8.2	1,417.1	2.33	7.4	2,059.4	1.45
Securities						
U.S. Government	26.7	5,718.3	1.87	22.0	6,423.8	1.37
Obligations of States and Political Subdivisions	3.6	785.4	1.83	3.4	928.8	1.46
Government Sponsored Agency	109.3	20,215.0	2.17	61.5	17,888.7	1.38
Other (2)	88.6	22,973.7	1.55	56.9	18,490.5	1.23
Total Securities	228.2	49,692.4	1.84	143.8	43,731.8	1.32
Loans and Leases (3)	273.5	32,235.4	3.40	227.0	33,891.4	2.69
Total Earning Assets	577.0	114,414.6	2.02	426.1	109,906.5	1.56
Allowance for Credit Losses Assigned to Loans and Leases	—	(126.4)	—	—	(162.3)	—
Cash and Due from Banks and Other Central Bank Deposits (4)	—	2,440.5	—	—	2,701.1	—
Buildings and Equipment	—	440.0	—	—	465.2	—
Client Security Settlement Receivables	—	942.1	—	—	829.0	—
Goodwill	—	615.9	—	—	521.6	—
Other Assets	—	5,140.0	—	—	4,139.6	—
Total Assets	$—	$123,866.7	— %	$—	$118,400.7	— %
Average Source of Funds						
Deposits						
Savings, Money Market and Other	$17.0	$15,565.0	0.44 %	$4.7	$15,236.1	0.12 %
Savings Certificates and Other Time	2.0	896.6	0.87	2.4	1,312.7	0.72
Non-U.S. Offices — Interest-Bearing	58.3	57,684.5	0.41	33.9	56,672.3	0.24
Total Interest-Bearing Deposits	77.3	74,146.1	0.42	41.0	73,221.1	0.22
Short-Term Borrowings	51.5	11,336.2	1.82	12.2	5,412.0	0.91
Senior Notes	11.7	1,497.6	3.14	11.8	1,496.9	3.14
Long-Term Debt	12.0	1,410.8	3.41	9.6	1,536.1	2.51
Floating Rate Capital Debt	1.9	277.5	2.80	1.1	277.4	1.70
Total Interest-Related Funds	154.4	88,668.2	0.70	75.7	81,943.5	0.37
Interest Rate Spread	—	—	1.32	—	—	1.19
Demand and Other Noninterest-Bearing Deposits	—	21,484.7	—	—	23,518.1	—
Other Liabilities	—	3,511.7	—	—	2,963.1	—
Stockholders' Equity	—	10,202.1	—	—	9,976.0	—
Total Liabilities and Stockholders' Equity	$—	$123,866.7	— %	$—	$118,400.7	— %
Net Interest Income/Margin (FTE Adjusted)	$422.6	$—	1.48 %	$350.4	$—	1.28 %

Net Interest Income/Margin (Unadjusted)	$413.3	$—	1.45 %	$341.5	$—	1.25 %

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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

	Three Months Ended June 30, 2018/2017 Change Due To		
(In Millions)	Average Balance	Rate	Total
Earning Assets (FTE)	$22.6	$128.3	$150.9
Interest-Related Funds	18.1	60.6	78.7
Net Interest Income (FTE)	$4.5	$67.7	$72.2

(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, 2018 and 2017.
(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 noninterest-bearing component of Federal Reserve and Other Central Bank Deposits as presented on the consolidated balance sheets.
(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.

Notes: 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 24.8% and 37.8% for the three months ended June 30, 2018 and 2017, respectively. Total taxable equivalent interest adjustments amounted to $9.3 million and $8.9 million for the three months ended June 30, 2018 and 2017, 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 28.

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 $422.6 million in the current quarter, up $72.2 million, or 21%, compared to $350.4 million in the prior-year quarter. The increase was primarily the result of a higher net interest margin and an increase in earning assets. Average earning assets for the current quarter were $114.4 billion, up $4.5 billion, or 4%, from $109.9 billion in the prior-year quarter, primarily resulting from higher levels of securities, partially offset by reductions in loans and leases. Earning asset growth was funded primarily by higher levels of borrowed funds and interest-bearing deposits, partially offset by lower demand and other noninterest-bearing deposits.

The net interest margin on an FTE basis increased to 1.48% in the current quarter from 1.28% in the prior-year quarter, primarily due to higher short-term interest rates, partially offset by a balance sheet mix shift.

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 28.

Federal Reserve and other central bank deposits averaged $24.5 billion, up $1.9 billion, or 9%, from $22.6 billion in the prior-year quarter. Average securities were $49.7 billion, up $6.0 billion, or 14%, from $43.7 billion in the prior-year quarter and include certain community development investments, Federal Home Loan Bank stock, and Federal Reserve stock of $426.1 million, $226.0 million and $53.7 million, respectively, which are recorded in other assets in the consolidated balance sheets.

Loans and leases averaged $32.2 billion, down $1.7 billion, or 5%, from $33.9 billion in the prior-year quarter, primarily reflecting lower levels of residential real estate, commercial real estate, and commercial and institutional loans, partially offset by increases in private client loans. Residential real estate loans averaged $7.0 billion, down $1.0 billion, or 13%, from $8.0 billion for the prior-year quarter. Commercial real estate loans averaged $3.4 billion, down $463.9 million, or 12%, from $3.8 billion for the prior-year quarter. Commercial and institutional loans averaged $9.2 billion, down $316.7 million, or 3%, from $9.5 billion for the prior-year quarter. Private client loans averaged $10.4 billion, up $102.6 million, or 1%, from $10.3 billion for the prior-year quarter.

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)
Net Interest Income (continued)

Northern Trust utilizes a diverse mix of funding sources. Total interest-bearing deposits averaged $74.1 billion in the current quarter, compared to $73.2 billion in the prior-year quarter, an increase of $925.0 million. Other interest-bearing funds averaged $14.5 billion in the current quarter, compared to $8.7 billion in the prior-year quarter. 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 decreased $2.3 billion, or 8%, to $25.7 billion in the current quarter from $28.0 billion in the prior-year quarter, primarily resulting from lower levels of demand and other noninterest-bearing deposits.

Provision for Credit Losses

The provision for credit losses was $1.5 million in the current quarter, as compared to a provision credit of $7.0 million in the prior-year quarter. The provision in the current quarter was primarily driven by an increase in the specific reserve attributable to the commercial and institutional and commercial real estate portfolios, partially offset by a reduction in the specific reserve attributable to the residential real estate portfolio. Net charge-offs in the current quarter were $0.1 million, resulting from charge-offs of $2.2 million and recoveries of $2.1 million. The prior-year quarter included $3.2 million of net charge-offs, reflecting $5.0 million of charge-offs and $1.8 million of recoveries. Nonperforming assets of $132.2 million decreased 21% from $166.7 million at the end of the prior-year quarter. Residential real estate, commercial and institutional, and commercial real estate loans accounted for 84%, 11%, and 5%, respectively, of total nonperforming loans and leases at June 30, 2018. For additional discussion of the provision and allowance for credit losses, refer to the “Asset Quality” section beginning on page 23.

Noninterest Expense

The components of noninterest expense are provided below.

Table 13: Noninterest Expense

Noninterest Expense	Three Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Compensation	$454.7	$432.5	$22.2	5 %
Employee Benefits	88.8	75.6	13.2	17
Outside Services	185.6	167.0	18.6	11
Equipment and Software	144.2	133.7	10.5	8
Occupancy	48.8	46.3	2.5	6
Other Operating Expense	75.3	82.3	(7.0)	(8)
Total Noninterest Expense	$997.4	$937.4	$60.0	6 %

Compensation expense, the largest component of noninterest expense, totaled $454.7 million in the current quarter, up $22.2 million, or 5%, compared to $432.5 million in the prior-year quarter, primarily reflecting higher cash-based incentive accruals, increased salary expense, and higher long-term performance-based incentive expense, partially offset by lower severance charges. Compensation expense in the current quarter included severance-related and restructuring charges of $3.9 million, as compared to $19.5 million in the prior-year quarter. The increase in salary expense was driven by base pay adjustments and staff growth including the acquisition of UBS Asset Management’s fund administration units in Luxembourg and Switzerland (the UBS acquisition).

Employee benefits expense totaled $88.8 million in the current quarter, up $13.2 million, or 17%, compared to $75.6 million in the prior-year quarter, primarily due to higher medical costs and retirement plan expenses. Employee benefits expense in the current quarter included a benefit of $0.2 million from severance-related charges, as compared to an expense of $2.5 million in the prior-year quarter.

Outside services expense totaled $185.6 million in the current quarter, up $18.6 million, or 11%, compared to $167.0 million in the prior-year quarter, primarily reflecting a change in presentation of third-party advisor costs resulting from the adoption of the new revenue recognition accounting standard as of January 1, 2018, higher technical services costs, increased costs associated with the UBS acquisition, and higher sub-custodian expenses, partially offset by lower sub-advisor costs and consulting services. There is a corresponding increase to trust, investment and other servicing fees as a result of the adoption of the new revenue recognition accounting standard. The current quarter included severance-related and restructuring charges of $2.9 million, as compared to $0.8 million in the prior-year quarter.

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SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)
Noninterest Expense (continued)

Equipment and software expense totaled $144.2 million in the current quarter, up $10.5 million, or 8%, compared to $133.7 million in the prior-year quarter, primarily reflecting increased software amortization.

Other operating expense totaled $75.3 million in the current quarter, down 8% from $82.3 million in the prior-year quarter, primarily reflecting lower charges associated with account servicing activities, partially offset by higher costs associated with the UBS acquisition.

The components of other operating expense are provided below.

Table 14: Other Operating Expense

Other Operating Expense	Three Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Business Promotion	$21.9	$19.8	$2.1	10 %
Staff Related	10.3	12.8	(2.5)	(19)
FDIC Insurance Premiums	7.6	8.5	(0.9)	(11)
Other Intangibles Amortization	4.3	2.3	2.0	88
Other Expenses	31.2	38.9	(7.7)	(20)
Total Other Operating Expense	$75.3	$82.3	$(7.0)	(8)%

Provision for Income Taxes

Income tax expense for the three months ended June 30, 2018 was $116.8 million, representing an effective tax rate of 23.0%, compared to $122.9 million in the prior-year quarter, representing an effective tax rate of 31.4%.

The decrease in the provision for income taxes was primarily attributable to the reduction in the U.S. corporate income tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act (“TCJA”) enacted in the fourth quarter of 2017 as well as the tax benefit recognized in the current quarter in conjunction with sales related to a non-strategic lease portfolio. Decreases to the provision for income taxes were partially offset by an increase in income before income taxes, tax accounting changes in 2018 brought about by the TCJA including the tax accounting associated with non-U.S. branches and subsidiaries, and a reduction in the income tax benefit derived from the vesting of restricted stock units and stock option exercises compared to the prior-year quarter. The initial estimated impact of the TCJA may continue to be refined in future periods as further information becomes available.

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, 2018 and 2017. 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 15: Results of Reporting Segments

Three Months Ended June 30,	Corporate & Institutional Services		Wealth Management		Treasury and Other		Total Consolidated	
($ In Millions)	2018	2017	2018	2017	2018	2017	2018	2017
Noninterest Income								
Trust, Investment and Other Servicing Fees	$552.2	$487.1	$390.7	$361.1	$—	$—	$942.9	$848.2
Foreign Exchange Trading Income	60.1	50.6	1.0	0.8	17.8	(1.5)	78.9	49.9
Other Noninterest Income	45.0	44.4	26.7	26.7	(0.7)	10.5	71.0	81.6
Net Interest Income*	247.9	176.0	209.6	181.8	(34.9)	(7.4)	422.6	350.4
Revenue*	905.2	758.1	628.0	570.4	(17.8)	1.6	1,515.4	1,330.1
Provision for Credit Losses	3.0	(2.7)	(1.5)	(4.3)	—	—	1.5	(7.0)
Noninterest Expense	599.3	545.6	369.5	350.9	28.6	40.9	997.4	937.4
Income before Income Taxes*	302.9	215.2	260.0	223.8	(46.4)	(39.3)	516.5	399.7
Provision for Income Taxes*	63.0	67.7	64.1	84.3	(1.0)	(20.2)	126.1	131.8
Net Income	$239.9	$147.5	$195.9	$139.5	$(45.4)	$(19.1)	$390.4	$267.9
Percentage of Consolidated Net Income	62%	55%	50%	52%	(12)%	(7)%	100%	100%
Average Assets	$82,153.1	$80,584.0	$26,086.3	$26,823.5	$15,627.3	$10,993.2	$123,866.7	$118,400.7

* Non-GAAP financial measures stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of $9.3 million for 2018 and $8.9 million for 2017. A reconciliation of total consolidated 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 28.

Six Months Ended June 30,	Corporate & Institutional Services		Wealth Management		Treasury and Other		Total Consolidated	
($ In Millions)	2018	2017	2018	2017	2018	2017	2018	2017
Noninterest Income								
Trust, Investment and Other Servicing Fees	$1,096.5	$950.0	$784.1	$706.4	$—	$—	$1,880.6	$1,656.4
Foreign Exchange Trading Income	122.5	99.7	2.2	1.7	32.7	(3.4)	157.4	98.0
Other Noninterest Income	91.6	88.6	52.4	52.2	2.8	15.4	146.8	156.2
Net Interest Income*	477.3	342.5	408.4	358.8	(70.4)	11.5	815.3	712.8
Revenue*	1,787.9	1,480.8	1,247.1	1,119.1	(34.9)	23.5	3,000.1	2,623.4
Provision for Credit Losses	(0.9)	(2.4)	(0.6)	(5.6)	—	—	(1.5)	(8.0)
Noninterest Expense	1,184.9	1,056.4	735.2	697.2	72.6	78.3	1,992.7	1,831.9
Income before Income Taxes*	603.9	426.8	512.5	427.5	(107.5)	(54.8)	1,008.9	799.5
Provision for Income Taxes*	129.8	134.6	126.5	161.1	(19.4)	(40.2)	236.9	255.5
Net Income	$474.1	$292.2	$386.0	$266.4	$(88.1)	$(14.6)	$772.0	$544.0
Percentage of Consolidated Net Income	61%	54%	50%	49%	(11)%	(3)%	100%	100%
Average Assets	$82,891.4	$79,201.4	$26,097.1	$26,743.1	$15,189.8	$11,499.3	$124,178.3	$117,443.8

* Non-GAAP financial measures stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of $18.0 million for 2018 and $17.8 million for 2017. A reconciliation of total consolidated 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 28.

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REPORTING SEGMENTS (continued)
Corporate & Institutional Services

C&IS net income totaled $239.9 million in the current quarter compared to $147.5 million in the prior-year quarter, an increase of $92.4 million, or 63%. Noninterest income was $657.3 million in the current quarter, up $75.2 million, or 13%, from $582.1 million in the prior-year quarter, reflecting higher trust, investment and other servicing fees and foreign exchange trading income.

Table 16: C&IS Trust, Investment and Other Servicing Fees

	Three Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Custody and Fund Administration	$376.7	$327.5	$49.2	15 %
Investment Management	113.1	99.3	13.8	14
Securities Lending	30.2	24.6	5.6	23
Other	32.2	35.7	(3.5)	(10)
Total C&IS Trust, Investment and Other Servicing Fees	$552.2	$487.1	$65.1	13 %

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 are based generally on market values of client assets under management throughout the period.

Custody and fund administration fees increased $49.2 million, or 15%, from the prior-year quarter, primarily due to revenue associated with the UBS acquisition, new business, and the favorable impact of movements in foreign exchange rates. Investment management fees increased $13.8 million, or 14%, primarily due to new business, favorable markets, and a change to gross revenue presentation for certain clients. There is a corresponding increase to third-party advisor costs in outside services as a result of the change to gross revenue presentation for these clients. Securities lending fees increased 23% primarily due to increased loan volumes. Other fees decreased 10%, primarily due to lower sub-advisor fees. The decrease associated with sub-advisor fees has an associated decrease in outside services expense.

Foreign exchange trading income totaled $60.1 million in the current quarter, an increase of $9.5 million, or 19%, from $50.6 million in the prior-year quarter. The increase was driven primarily by higher client volumes.

Other noninterest income in C&IS totaled $45.0 million in the current quarter, up 1%, from $44.4 million in the prior-year quarter, primarily due to higher security commissions and trading income, partially offset by lower treasury management fees.

Net interest income stated on an FTE basis was $247.9 million in the current quarter, up $71.9 million, or 41%, from $176.0 million in the prior-year quarter. The increase in net interest income was primarily attributable to an increase in the net interest margin and higher levels of earning assets. The net interest margin increased to 1.31% from 0.94% in the prior-year quarter, primarily due to higher short-term interest rates. Average earning assets totaled $75.6 billion, up from $74.8 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 $54.3 billion in the current quarter, up from $51.7 billion in the prior-year quarter.

The provision for credit losses was $3.0 million in the current quarter, compared with a provision credit of $2.7 million in the prior-year quarter. The current quarter provision reflected an increase in the specific reserve attributable to the commercial and institutional and commercial real estate portfolios. The prior-year quarter provision credit reflected a reduction in the inherent reserve requirement due to 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 $599.3 million in the current quarter, up $53.7 million, or 10%, from $545.6 million in the prior-year quarter, primarily reflecting higher compensation expense, indirect expense allocations, outside services expense, and employee benefits expense.

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REPORTING SEGMENTS (continued)

Corporate & Institutional Services (continued)

The provision for income taxes was $63.0 million in the current quarter compared to $67.7 million in the prior-year quarter, primarily attributable to the reduction in the U.S. federal corporate income tax rate from 35% to 21% as a result of the TCJA, partially offset by an increase in income before income taxes.

Wealth Management

Wealth Management net income was $195.9 million in the current quarter, up $56.4 million, or 40%, from $139.5 million in the prior-year quarter. Noninterest income was $418.4 million, up $29.8 million, or 8%, from $388.6 million in the prior-year quarter, primarily reflecting higher trust, investment and other servicing fees. Trust, investment and other servicing fees in Wealth Management totaled $390.7 million in the current quarter, increasing $29.6 million, or 8%, from $361.1 million in the prior-year quarter. The following table provides a summary of Wealth Management trust, investment and other servicing fees.

Table 17: Wealth Management Trust, Investment and Other Servicing Fees

	Three Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Central	$150.7	$143.1	$7.6	5 %
East	97.0	88.3	8.7	10
West	80.4	73.4	7.0	10
Global Family Office	62.6	56.3	6.3	11
Total Wealth Management Trust, Investment and Other Servicing Fees	$390.7	$361.1	$29.6	8 %

Wealth Management fee income is calculated primarily based on market values. The increase in Wealth Management fees across all regions was primarily attributable to favorable markets, a change in presentation of certain fees resulting from the adoption of the new revenue recognition standard, and new business. The 11% increase in Global Family Office fees was primarily attributable to new business and favorable markets.

Other noninterest income was $26.7 million in both the current and prior-year quarters, primarily reflecting an increase in other operating income, offset by a decrease in securities commissions and trading income.

Net interest income stated on an FTE basis was $209.6 million in the current quarter, up $27.8 million, or 15%, from $181.8 million in the prior-year quarter, primarily reflecting an increase in the net interest margin, partially offset by lower levels of earning assets. The net interest margin increased to 3.26% from 2.75% in the prior-year quarter, reflecting higher yields on earning assets. Average earning assets decreased $792.3 million to $25.8 billion from the prior-year quarter’s $26.6 billion. Earning assets and funding sources were primarily comprised of loans and domestic interest-bearing deposits, respectively.

The provision for credit losses was a provision credit of $1.5 million in the current quarter, compared with a provision credit of $4.3 million in the prior-year quarter. The current quarter provision reflected a reduction in the specific reserve attributable to the residential real estate portfolio. The prior-year quarter provision reflected a reduction in the inherent allowance requirement due to 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 $369.5 million in the current quarter, compared to $350.9 million in the prior-year quarter, an increase of $18.6 million, or 5%, primarily reflecting higher indirect expense allocations and compensation expense.

The provision for income taxes was $64.1 million in the current quarter compared to $84.3 million in the prior-year quarter, primarily attributable to the reduction in the U.S. federal corporate income tax rate from 35% to 21% as a result of the TCJA, partially offset by an increase in income before income taxes.

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.

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REPORTING SEGMENTS (continued)
Treasury and Other (continued)

Treasury and Other noninterest income increased $8.1 million, from $9.0 million in the prior-year quarter to $17.1 million in the current quarter, primarily due to higher foreign exchange trading income due to increased foreign exchange swap activity in Treasury, partially offset by lower other noninterest income.
Net interest income decreased $27.5 million from net interest expense of $7.4 million in the prior-year quarter to net interest expense of $34.9 million in the current quarter. The reduction in net interest income in Treasury and Other was driven by higher net funds transfer pricing credits in the C&IS and Wealth Management segments, partially offset by higher yields on earning assets. Average earning assets increased $4.4 billion to $13.0 billion from $8.6 billion in the prior-year quarter.
Noninterest expense totaled $28.6 million in the current quarter, down $12.3 million, or 30%, from $40.9 million in the prior-year quarter, primarily reflecting higher indirect expense allocations to C&IS and Wealth Management as compared to the prior-year quarter, lower compensation expense, and lower other operating expense, partially offset by higher outside services expense, equipment and software expense, and employee benefit expense.
The provision for income taxes was a benefit of $1.0 million in the current quarter compared to a $20.2 million benefit in the prior-year quarter, impacted by the reduction in the U.S. federal corporate income tax rate from 35% to 21% as a result of the TCJA, a reduction in the income tax benefit derived from the vesting of restricted stock units and stock option exercises compared to the prior-year quarter, and a decrease in income before income taxes.
SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS
Overview
Net income per diluted common share was $3.26 for the six months ended June 30, 2018, and $2.21 in the comparable prior-year period. Net income totaled $772.0 million, up $228.0 million, or 42%, compared to $544.0 million in the prior-year period. The performance in the current period produced an annualized return on average common equity of 16.3%, compared to 11.6% in the prior-year period. The annualized return on average assets was 1.25% in the current period compared to 0.93% in the prior-year period.
Revenue for the six months ended June 30, 2018 totaled $2.98 billion, up $376.5 million, or 14%, as compared to $2.61 billion in the prior-year period.
Noninterest income was $2.18 billion, up $274.1 million, or 14%, from $1.91 billion in the prior-year period, primarily driven by increased trust, investment, and other servicing fees, foreign exchange trading income, and security commissions and trading income, partially offset by lower other operating income.

Net interest income totaled $797.3 million, up $102.3 million, or 15%, as compared to $695.0 million in the prior-year period, due to a higher net interest margin and an increase in earning assets.

The provision for credit losses was a provision credit of $1.5 million in the current period, as compared to a provision credit of $8.0 million in the prior-year period.

Noninterest expense totaled $1.99 billion in the current period, up $160.8 million, or 9%, from $1.83 billion in the prior-year period, primarily attributable to higher compensation, outside services, employee benefits, equipment and software and occupancy expense.

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income

The components of noninterest income are provided below.

Table 18: Six Months Ended June 30 Noninterest Income

Noninterest Income	Six Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Trust, Investment and Other Servicing Fees	$1,880.6	$1,656.4	$224.2	14 %
Foreign Exchange Trading Income	157.4	98.0	59.4	61
Treasury Management Fees	27.5	29.6	(2.1)	(7)
Security Commissions and Trading Income	53.3	44.6	8.7	20
Other Operating Income	66.2	82.7	(16.5)	(20)
Investment Security Losses, net	(0.2)	(0.7)	0.5	N/M
Total Noninterest Income	$2,184.8	$1,910.6	$274.2	14 %

As illustrated in the following table, trust, investment and other servicing fees from C&IS increased $146.5 million, or 15%, totaling $1.10 billion, compared to $950.0 million a year ago.

Table 19: Six Months Ended June 30 C&IS Trust, Investment and Other Servicing Fees

C&IS Trust, Investment and Other Servicing Fees	Six Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Custody and Fund Administration	$750.6	$635.0	$115.6	18 %
Investment Management	222.8	192.8	30.0	16
Securities Lending	56.2	48.4	7.8	16
Other	66.9	73.8	(6.9)	(9)
Total	$1,096.5	$950.0	$146.5	15 %

Custody and fund administration fees, the largest component of C&IS fees, increased 18%, primarily driven by revenue associated with the UBS acquisition, new business, the favorable impact of movements in foreign exchange rates, and favorable markets. C&IS investment management fees increased 16%, primarily due to the favorable impact of markets, new business, and a change to gross revenue presentation for certain clients. There is a corresponding increase to third-party advisor costs in outside services as a result of the change to gross revenue presentation for certain clients. Securities lending fees increased 16%, primarily driven by increased loan volumes, partially offset by lower spreads. Other fees in C&IS decreased 9%, primarily due to lower sub-advisor fees, partially offset by new business. The decrease associated with sub-advisor fees has an associated decrease in outside services expense.

As illustrated in the following table, trust, investment and other servicing fees from Wealth Management totaled $784.1 million, up $77.7 million, or 11%, from $706.4 million a year ago.

Table 20: Six Months Ended June 30 Wealth Management Trust, Investment and Other Servicing Fees

	Six Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Wealth Management Trust, Investment and Other Servicing Fees				
Central	$304.6	$280.5	$24.1	9 %
East	195.9	173.5	22.4	13
West	159.0	143.0	16.0	11
Global Family Office	124.6	109.4	15.2	14
Total	$784.1	$706.4	$77.7	11%

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income (continued)

The increase in Wealth Management fees across the regions was primarily attributable to favorable markets, a change in presentation of certain fees resulting from the adoption of the new revenue recognition standard, and new business. The 14% increase in Global Family Office fees was primarily attributable to new business and favorable markets.

Foreign exchange trading income increased $59.4 million, or 61%, and totaled $157.4 million compared with $98.0 million in the prior-year period. The increase was attributable to higher client volumes and increased foreign exchange swap activity in Treasury.

Security commissions and trading income increased $8.7 million, or 20%, and totaled $53.3 million compared with $44.6 million in the prior-year period. The increase was attributable to higher core brokerage and transition management revenue.

Other operating income decreased $16.5 million, or 20%, to $66.2 million compared with $82.7 million in the prior-year period. The decrease was due to non-recurring net gains on hedging activity recognized in the prior-year period and a valuation adjustment to existing swap agreements related to Visa Inc. Class B common shares recorded in other income in the current period. The components of other operating income are provided below.

Table 21: Six Months Ended June 30 Other Operating Income

Other Operating Income	Six Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Loan Service Fees	$25.2	$25.7	$(0.5)	(2)%
Banking Service Fees	24.2	24.9	(0.7)	(3)
Other Income	16.8	32.1	(15.3)	(48)
Total Other Operating Income	$66.2	$82.7	$(16.5)	(20)%

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

(Interest and Rate on a Fully Taxable Equivalent Basis)	NORTHERN TRUST CORPORATION Six Months Ended June 30, 2018			2017		
($ In Millions)	Interest	Average Balance	Rate (5)	Interest	Average Balance	Rate (5)
Average Earning Assets						
Federal Reserve and Other Central Bank Deposits	$96.2	$25,498.4	0.76 %	$63.4	$22,190.6	0.58 %
Interest-Bearing Due from and Deposits with Banks (1)	38.2	6,737.6	1.14	29.0	7,171.8	0.82
Federal Funds Sold and Securities Purchased under Agreements to Resell	15.1	1,442.0	2.11	14.0	2,035.7	1.38
Securities						
U.S. Government	50.5	5,726.8	1.78	45.0	6,816.6	1.33
Obligations of States and Political Subdivisions	6.0	732.1	1.63	7.0	959.1	1.47
Government Sponsored Agency	190.7	19,535.4	1.97	130.6	17,843.0	1.48
Other (2)	167.8	23,023.5	1.47	113.8	18,633.1	1.23
Total Securities	415.0	49,017.8	1.71	296.4	44,251.8	1.35
Loans and Leases (3)	527.1	32,351.1	3.29	442.5	33,781.9	2.64
Total Earning Assets	1,091.6	115,046.9	1.91	845.3	109,431.8	1.56
Allowance for Credit Losses Assigned to Loans and Leases	—	(128.7)	—	—	(161.5)	—
Cash and Due from Banks and Other Central Bank Deposits (4)	—	2,516.4	—	—	2,410.5	—
Buildings and Equipment	—	448.5	—	—	465.5	—
Client Security Settlement Receivables	—	976.9	—	—	829.3	—
Goodwill	—	613.4	—	—	520.6	—
Other Assets	—	4,704.9	—	—	3,947.6	—
Total Assets	$—	$124,178.3	— %	$—	$117,443.8	— %
Average Source of Funds						
Deposits						
Savings, Money Market and Other	$29.8	$15,739.8	0.38 %	$7.9	$15,340.8	0.10 %
Savings Certificates and Other Time	4.1	977.1	0.85	4.7	1,325.6	0.71
Non-U.S. Offices — Interest-Bearing	106.5	58,437.8	0.37	56.0	54,565.7	0.21
Total Interest-Bearing Deposits	140.4	75,154.7	0.38	68.6	71,232.1	0.19
Short-Term Borrowings	86.0	10,376.1	1.67	21.2	5,534.8	0.77
Senior Notes	23.4	1,497.5	3.16	23.5	1,496.8	3.16
Long-Term Debt	23.0	1,418.6	3.27	17.0	1,431.1	2.39
Floating Rate Capital Debt	3.5	277.5	2.51	2.2	277.4	1.63
Total Interest-Related Funds	276.3	88,724.4	0.63	132.5	79,972.2	0.33
Interest Rate Spread	—	—	1.28	—	—	1.23
Demand and Other Noninterest-Bearing Deposits	—	21,752.4	—	—	24,609.3	—
Other Liabilities	—	3,531.4	—	—	2,978.1	—
Stockholders' Equity	—	10,170.1	—	—	9,884.2	—
Total Liabilities and Stockholders' Equity	$—	$124,178.3	— %	$—	$117,443.8	— %
Net Interest Income/Margin (FTE Adjusted)	$815.3	$—	1.43 %	$712.8	$—	1.31 %

Net Interest Income/Margin (Unadjusted)	$797.3	$—	1.40 %	$695.0	$—	1.28 %

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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

	Six Months Ended June 30, 2018/2017 Change Due To		
(In Millions)	Average Balance	Rate	Total
Earning Assets (FTE)	$53.6	$192.7	$246.3
Interest-Related Funds	27.7	116.1	143.8
Net Interest Income (FTE)	$25.9	$76.6	$102.5

(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, 2018 and 2017.

(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.

(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.

Notes: 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 24.8% and 37.8% for the six months ended June 30, 2018 and 2017, respectively. Total taxable equivalent interest adjustments amounted to $18.0 million and $17.8 million for the six months ended June 30, 2018 and 2017, 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 28.

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 $815.3 million, an increase of $102.5 million, or 14%, from $712.8 million reported in the prior-year period. The increase is the result of higher net interest margin and an increase in earning assets. Average earning assets were $115.0 billion, up $5.6 billion, or 5%, from $109.4 billion in the prior-year period, primarily attributable to higher levels of securities and short-term interest-bearing deposits, partially offset by a reduction in loans and leases. The net interest margin, on an FTE basis, increased to 1.43% from 1.31% in the prior-year period.

Provision for Credit Losses

The provision for credit losses was a provision credit of $1.5 million in the current-year period, compared to a provision credit of $8.0 million in the prior-year period. The credit provision in the current-year period was primarily driven by reductions in outstanding loans that resulted in a reduction in the inherent allowance ascribed to the residential real estate, commercial real estate, and commercial and institutional portfolios as well as the reduction in the specific reserve attributable to the residential real estate portfolio, partially offset by an increase in the specific reserve attributable to the commercial and institutional and commercial real estate portfolios. Net charge-offs in the current-year period totaled $3.1 million resulting from $6.5 million of charge-offs and $3.4 million of recoveries, compared to net charge-offs of $5.2 million in the prior-year period resulting from $9.7 million of charge-offs and

$4.5 million of recoveries. Residential real estate loans continued to reflect weakness relative to the overall portfolio, accounting for 84% and 81% of total nonperforming loans and leases at June 30, 2018 and 2017, respectively. Loan balances within the residential real estate, commercial and institutional, and commercial real estate portfolios decreased in the current period, while loan balances in the non-U.S. portfolio increased. For additional discussion of the consolidated allowance and provision for credit losses refer to the “Asset Quality” section beginning on page 23.

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SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Expense

Noninterest expense totaled $1.99 billion for the current period, up $160.8 million, or 9%, compared to $1.83 billion in the prior-year period. The components of noninterest expense are provided below.

Table 23: Six Months Ended June 30 Noninterest Expense

Noninterest Expense	Six Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Compensation	$926.4	$858.3	$68.1	8 %
Employee Benefits	180.5	153.4	27.1	18
Outside Services	357.0	320.1	36.9	12
Equipment and Software	284.2	261.0	23.2	9
Occupancy	100.3	91.7	8.6	9
Other Operating Expense	144.3	147.4	(3.1)	(2)
Total Noninterest Expense	$1,992.7	$1,831.9	$160.8	9 %

Compensation expense, the largest component of noninterest expense, totaled $926.4 million, up $68.1 million, or 8%, from $858.3 million in the prior-year period, reflecting increases due to higher cash-based incentive accruals, higher salary expense driven by base pay adjustments and staff growth including the UBS acquisition, and higher long-term performance-based incentive expense, partially offset by lower severance-related and restructuring charges of $10.0 million in the current period compared to $19.5 million in the prior-year period

Employee benefits expense of $180.5 million was up $27.1 million, or 18%, from $153.4 million in the prior-year period, reflecting higher retirement plan expenses, medical expenses, and payroll taxes, partially offset by lower severance-related and restructuring charges of $0.3 million in the current period compared to severance-related and restructuring charges of $2.5 million in the prior-year period.

Outside services expense equaled $357.0 million, up $36.9 million, or 12%, from $320.1 million in the prior-year period, primarily reflecting a change in presentation of third-party advisor costs resulting from the adoption of the new revenue recognition accounting standard, higher technical services costs, increased costs associated with the UBS acquisition, higher sub-custodian expenses, and higher severance-related and restructuring charges of $4.9 million in the current period compared to $0.8 million in the prior-year period, partially offset by lower sub-advisor costs and consulting services. There is a corresponding increase to trust, investment and other servicing fees as a result of the adoption of the new revenue recognition accounting standard.

Equipment and software expense totaled $284.2 million, up $23.2 million, or 9%, from $261.0 million in the prior-year period, reflecting increased software amortization and costs associated with the UBS acquisition.

Occupancy expense equaled $100.3 million, up $8.6 million, or 9%, from $91.7 million in the prior-year period, primarily reflecting accelerated depreciation expense related to a previously announced facility exit.

Other operating expense totaled $144.3 million, down $3.1 million, or 2%, from $147.4 million in the prior-year period, primarily reflecting lower charges associated with account servicing activities, partially offset by higher costs associated with the UBS acquisition. The components of other operating expense are provided below.

Table 24: Six Months Ended June 30 Other Operating Expense

Other Operating Expense	Six Months Ended June 30,			
($ In Millions)	2018	2017	Change	
Business Promotion	$38.0	$36.0	$2.0	6 %
Staff Related	15.7	21.4	(5.7)	(27)
FDIC Insurance Premiums	16.5	17.0	(0.5)	(3)
Other Intangibles Amortization	8.9	4.7	4.2	90
Other Expenses	65.2	68.3	(3.1)	(4)
Total Other Operating Expense	$144.3	$147.4	$(3.1)	