

NORTHERN TRUST CORP  
Form 10-Q  
July 27, 2017  
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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, 2017

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, 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  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.

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

228,485,957 Shares – \$1.66 2/3 Par Value

(Shares of Common Stock Outstanding on June 30, 2017)

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NORTHERN TRUST CORPORATION  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017  
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(UNAUDITED)

CONDENSED INCOME STATEMENTS (In Millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016 ^	% Change <sup>(1)</sup>	2017	2016 ^	% Change <sup>(1)</sup>
Noninterest Income	\$979.7	\$1,017.0	(4 )%	\$1,910.6	\$1,899.2	1 %
Net Interest Income	341.5	299.7	14	695.0	607.5	14
Provision for Credit Losses	(7.0 )	(3.0 )	133	(8.0 )	(1.0 )	N/M
Noninterest Expense	937.4	925.0	1	1,831.9	1,753.8	4
Income before Income Taxes	390.8	394.7	(1 )	781.7	753.9	4
Provision for Income Taxes	122.9	131.7	(7 )	237.7	245.5	(3 )
Net Income	\$267.9	\$263.0	2 %	\$544.0	\$508.4	7 %
<b>PER COMMON SHARE</b>						
Net Income — Basic	\$1.12	\$1.11	1 %	\$2.22	\$2.14	4 %
— Diluted	1.12	1.10	2	2.21	2.13	4
Cash Dividends Declared Per Common Share	0.38	0.36	6	0.76	0.72	6
Book Value — End of Period (EOP)	40.20	37.79	6	40.20	37.79	6
Market Price — EOP	97.21	66.26	47	97.21	66.26	47

## SELECTED BALANCE SHEET DATA (In Millions)

End of Period:	June 30,		December		% Change <sup>(1)</sup>	
	2017	2016	31, 2016	2016		
Assets	\$125,605.7	\$123,926.9	\$123,926.9	\$115,446.4	1 %	
Earning Assets	116,324.6	115,446.4	115,446.4	109,431.8	1	
Deposits	104,312.1	101,651.7	101,651.7	93,042.2	3	
Stockholders' Equity	10,067.9	9,770.4	9,770.4	8,741.9	3	
	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change <sup>(1)</sup>	2017	2016	% Change <sup>(1)</sup>
Average Balances:						
Assets	\$118,400.7	\$114,913.8	3 %	\$117,443.8	\$114,165.4	3 %
Earning Assets	109,906.5	106,613.5	3	109,431.8	105,615.5	4
Deposits	96,739.2	93,608.1	3	95,841.4	93,042.2	3
Stockholders' Equity	9,976.0	8,792.7	13	9,884.2	8,741.9	13

CLIENT ASSETS (In Billions)	June 30,		December		% Change <sup>(1)</sup>
	2017	2016	31, 2016	2016	
Assets Under Custody/Administration <sup>(2)</sup>	\$9,294.2	\$8,541.3	\$8,541.3	\$7,379.6	9 %
Assets Under Custody	7,379.6	6,720.5	6,720.5	1,028.8	10
Assets Under Management	1,028.8	942.4	942.4		9

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

<sup>(2)</sup> 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.

<sup>(3)</sup> The three and six months ended June 30, 2016 results have been adjusted to reflect the adoption of ASU No 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU No. 2016-09). Please refer to Note 1, "Basis of Presentation," of the Notes to Consolidated

Financial Statements for further discussion on the impact to the Corporation's previously reported quarterly results.

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## SELECTED RATIOS AND METRICS

	Three Months		Six Months	
	Ended June		Ended June	
	30,	30,	30,	30,
	2017	2016	2017	2016
Financial Ratios:				
Return on Average Common Equity	11.6%	12.3%	11.6%	12.0%
Return on Average Assets	0.91	0.92	0.93	0.90
Dividend Payout Ratio	33.9	33.0	34.4	34.3
Net Interest Margin <sup>(1)</sup>	1.28	1.16	1.31	1.18
	June 30, 2017		December 31, 2016	
	Advanced	Standardized	Advanced	Standardized
	Approach	Approach	Approach	Approach
Capital Ratios:				
Northern Trust Corporation				
Common Equity Tier 1	13.2%	12.3%	12.4%	11.8%
Tier 1	14.5	13.5	13.7	12.9
Total	16.5	15.6	15.1	14.5
Tier 1 Leverage	8.1	8.1	8.0	8.0
Supplementary Leverage	7.0	N/A	6.8	N/A
The Northern Trust Company				
Common Equity Tier 1	13.3%	12.1%	12.4%	11.5%
Tier 1	13.3	12.1	12.4	11.5
Total	14.9	13.9	14.0	13.3
Tier 1 Leverage	7.2	7.2	7.0	7.0
Supplementary Leverage	6.2	N/A	6.0	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 28.

<sup>(1)</sup> The three and six months ended June 30, 2016 results have been adjusted to reflect the adoption of ASU No 2016-09. Please refer to Note 1, "Basis of Presentation," of the Notes to Consolidated Financial Statements for further discussion on the impact to the Corporation's previously reported quarterly results.

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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 \$1.12 in the current quarter, up from \$1.10 in the second quarter of 2016. Net income was \$267.9 million in the current quarter as compared to \$263.0 million in the prior-year quarter. Annualized return on average common equity was 11.6% in the current quarter and 12.3% in the prior-year quarter. The annualized return on average assets was 0.91% in the current quarter as compared to 0.92% in the prior-year quarter.

The current quarter included expense charges of \$22.8 million (\$14.9 million after tax, or \$0.06 per diluted common share) associated with severance and related activities.

The prior-year quarter included the pre-tax 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 pre-tax charge in connection with an agreement to settle certain securities lending litigation 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).

Revenue was \$1.32 billion in both the current and prior-year quarters. The prior-year quarter included 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, partially 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 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, revenue increased \$101.1 million, or 8%, primarily reflecting higher trust, investment and other servicing fees and net interest income, partially offset by lower foreign exchange trading income.

Net interest income increased 14% to \$341.5 million in the current quarter as compared to \$299.7 million in the prior-year quarter, primarily due to a higher net interest margin and growth in earning assets. Additionally, the prior-year quarter included a pre-tax charge of \$2.7 million related to the residual value of certain aircraft and rail

cars.

The provision for credit losses was a credit of \$7.0 million in the current quarter, as compared to a credit of \$3.0 million in the prior-year quarter.

Noninterest expense totaled \$937.4 million in the current quarter, up \$12.4 million, or 1%, from \$925.0 million in the prior-year quarter. The current quarter included expense charges of \$22.8 million associated with severance and related activities. The prior-year quarter included a pre-tax 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 severance, other personnel and related charges of \$17.5 million. Excluding these items, noninterest expense increased \$72.2 million, or 9%, primarily attributable to higher compensation, equipment and software, other operating, and outside expenses.

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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 (\$ In Millions)	Three Months Ended June 30,		
	2017	2016	Change
Trust, Investment and Other Servicing Fees	\$848.2	\$777.2	\$71.0 9 %
Foreign Exchange Trading Income	49.9	64.4	(14.5 ) (22)
Treasury Management Fees	14.9	16.0	(1.1 ) (7 )
Security Commissions and Trading Income	24.1	20.6	3.5 17
Other Operating Income	43.0	141.2	(98.2 ) (70)
Investment Security Gains (Losses), net	(0.4 )	(2.4 )	2.0 (81)
Total Noninterest Income	\$979.7	\$1,017.0	\$(37.3) (4 )%

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

Table 2: Assets Under Custody / Administration

Assets Under Custody / Administration (\$ In Billions)	June 30, 2017	March 31, 2017	June 30, 2016	Change Q2-17/Q1-17	Change Q2-17/Q2-16
Corporate & Institutional	\$8,690.8	\$8,338.2	\$7,590.8	4 %	14 %
Wealth Management	603.4	586.5	525.1	3	15
Total Assets Under Custody / Administration	\$9,294.2	\$8,924.7	\$8,115.9	4 %	15 %

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

Table 3: Assets Under Custody

Assets Under Custody (\$ In Billions)	June 30, 2017	March 31, 2017	June 30, 2016	Change Q2-17/Q1-17	Change Q2-17/Q2-16
Corporate & Institutional	\$6,786.3	\$6,533.3	\$5,838.6	4 %	16 %
Wealth Management	593.3	574.4	514.2	3	15
Total Assets Under Custody	\$7,379.6	\$7,107.7	\$6,352.8	4 %	16 %

The 16% increase in consolidated assets under custody from \$6.35 trillion as of June 30, 2016 to \$7.38 trillion as of June 30, 2017 primarily reflected the impact of favorable markets and new business.

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## SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

## Noninterest Income (continued)

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

Table 4: Allocations of Assets Under Custody

Assets Under Custody	June 30, 2017			March 31, 2017			June 30, 2016		
	C&ISWM	Total	C&ISWM	Total	C&ISWM	Total	C&ISWM	Total	
Equities	45%	56%	46%	45%	56%	46%	42%	54%	43%
Fixed Income	38	20	37	37	21	36	40	24	39
Cash and Other Assets	17	24	17	18	23	18	18	22	18

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

Table 5: Assets Under Management

Assets Under Management	June 30, 2017	March 31, 2017	June 30, 2016	Change Q2-17/Q1-17	Change Q2-17/Q2-16
(\$ In Billions)					
Corporate & Institutional	\$762.7	\$741.1	\$672.3	3%	13%
Wealth Management	266.1	260.2	233.9	2%	14%
Total Assets Under Management	\$1,028.8	\$1,001.3	\$906.2	3%	14%

The 14% increase in consolidated assets under management from \$906.2 billion at June 30, 2016 to \$1.03 trillion as of June 30, 2017 was primarily due to favorable global equity markets and net inflows in securities lending collateral, fixed income products, and cash.

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

Table 6: Assets Under Management by Investment Type

(\$ In Billions)	June 30, 2017	March 31, 2017	June 30, 2016
Equities	\$531.3	\$516.8	\$456.4
Fixed Income	169.5	165.8	156.3
Cash and Other Assets	197.0	195.1	185.2
Securities Lending Collateral	131.0	123.6	108.3
Total Assets Under Management	\$1,028.8	\$1,001.3	\$906.2

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

Table 7: Allocations of Assets Under Management

Assets Under Management	June 30, 2017			March 31, 2017			June 30, 2016		
	C&ISWM	Total	C&ISWM	Total	C&ISWM	Total	C&ISWM	Total	
Equities	52%	49%	52%	52%	49%	52%	52%	46%	50%
Fixed Income	13	26	16	13	27	17	13	29	17
Cash and Other Assets	18	25	19	18	24	19	19	25	21
Securities Lending Collateral	17	—	13	17	—	12	16	—	12

For the twelve months ended June 30, 2017, the S&P 500 index increased 15.5%, the MSCI EAFE index (USD) increased 17.1%, and the MSCI EAFE index (local currency) increased 18.9%.

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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 8: Activity in Consolidated Assets Under Management by Investment Type

(\$ In Billions)	Three Months Ended				
	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Beginning Balance of AUM	\$1,001.3	\$942.4	\$ 945.8	\$ 906.2	\$900.0
Inflows by Investment Type					
Equity	36.3	41.6	44.5	27.2	34.9
Fixed Income	11.6	13.7	16.2	13.1	18.6
Cash & Other Assets	98.2	91.8	95.7	109.5	83.6
Securities Lending Collateral	24.9	29.6	24.8	27.1	21.5
Total Inflows	171.0	176.7	181.2	176.9	158.6
Outflows by Investment Type					
Equity	(38.6)	(38.4)	(50.0)	(26.6)	(31.4)
Fixed Income	(10.5)	(13.0)	(14.1)	(8.8)	(14.9)
Cash & Other Assets	(99.5)	(89.7)	(98.4)	(100.2)	(84.7)
Securities Lending Collateral	(17.5)	(18.0)	(26.8)	(21.4)	(19.3)
Total Outflows	(166.1)	(159.1)	(189.3)	(157.0)	(150.3)
Net Inflows / (Outflows)	4.9	17.6	(8.1)	19.9	8.3
Market Performance, Currency & Other					
Market Performance & Other	18.2	38.9	—	—	—
Currency	4.4	2.4	—	—	—
Total Market Performance, Currency & Other	22.6	41.3	4.7	19.7	(2.1)
Ending Balance of AUM	\$1,028.8	\$1,001.3	\$ 942.4	\$ 945.8	\$906.2

Foreign exchange trading income totaled \$49.9 million in the current quarter, down \$14.5 million, or 22%, compared to \$64.4 million in the prior-year quarter. The decrease generally reflected lower currency volatility as compared to the prior-year quarter.

Other operating income in the prior-year quarter included the pre-tax 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, partially 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. Excluding these items, other operating income totaled \$43.0 million, up 3%, compared to \$41.9 million in the prior-year quarter primarily due to net gains on hedging activity. The components of other operating income are provided below.

Table 9: Other Operating Income

## Other Operating Income

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	Three Months Ended June 30,		
(\$ In Millions)	2017	2016	Change
Loan Service Fees	\$13.3	\$14.8	\$(1.5 ) (11)%
Banking Service Fees	12.6	12.8	(0.2 ) (2 )
Other Income	17.1	113.6	(96.5 ) (85)
Total Other Operating Income	\$43.0	\$141.2	\$(98.2) (70)%

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

NORTHERN TRUST CORPORATION						
SECOND QUARTER						
(Interest and Rate on a Fully Taxable Equivalent Basis)	2017		2016			
(\$ In Millions)	Interest	Average Balance	Rate <sup>(5)</sup>	Interest	Average Balance	Rate <sup>(5)</sup>
Average Earning Assets						
Federal Reserve and Other Central Bank Deposits	\$33.8	\$22,570.0	0.60 %	\$23.6	\$19,657.8	0.48 %
Interest-Bearing Due from and Deposits with Banks <sup>(1)</sup>	14.1	7,653.9	0.74	16.5	9,827.9	0.68
Federal Funds Sold and Securities Purchased under Agreements to Resell Securities	7.4	2,059.4	1.45	4.8	1,915.2	1.00
U.S. Government Obligations of States and Political Subdivisions	22.0	6,423.8	1.37	20.9	6,875.1	1.22
Government Sponsored Agency Other <sup>(2)</sup>	3.4	928.8	1.46	2.5	470.2	2.09
Total Securities	61.5	17,888.7	1.38	37.0	17,347.0	0.86
Loans and Leases <sup>(3)</sup>	56.9	18,490.5	1.23	42.9	16,064.2	1.07
Total Earning Assets	143.8	43,731.8	1.32	103.3	40,756.5	1.02
Allowance for Credit Losses Assigned to Loans and Leases	227.0	33,891.4	2.69	203.4	34,456.1	2.38
Cash and Due from Banks and Other Central Bank Deposits <sup>(4)</sup>	426.1	109,906.5	1.56	351.6	106,613.5	1.33
Buildings and Equipment	—	(162.3 )	—	—	(195.4 )	—
Client Security Settlement Receivables	—	2,701.1	—	—	2,093.9	—
Goodwill	—	465.2	—	—	439.9	—
Other Assets	—	829.0	—	—	1,143.0	—
Total Assets	—	521.6	—	—	531.2	—
Average Source of Funds	—	4,139.6	—	—	4,287.7	—
Deposits	\$—	\$118,400.7	— %	\$—	\$114,913.8	— %
Savings, Money Market and Other Savings Certificates and Other Time	\$4.7	\$15,236.1	0.12 %	\$2.7	\$15,041.3	0.07 %
Non-U.S. Offices — Interest-Bearing	2.4	1,312.7	0.72	1.9	1,405.0	0.54
Total Interest-Bearing Deposits	33.9	56,672.3	0.24	16.6	50,443.8	0.13
Short-Term Borrowings	41.0	73,221.1	0.22	21.2	66,890.1	0.13
Senior Notes	12.2	5,412.0	0.91	4.9	6,195.0	0.32
Long-Term Debt	11.8	1,496.9	3.14	11.7	1,496.1	3.15
Floating Rate Capital Debt	9.6	1,536.1	2.51	6.4	1,403.2	1.84
Total Interest-Related Funds	1.1	277.4	1.70	0.8	277.4	1.20
Interest Rate Spread	75.7	81,943.5	0.37	45.0	76,261.8	0.24
Demand and Other Noninterest-Bearing Deposits	—	23,518.1	—	—	26,718.0	—
Other Liabilities	—	2,963.1	—	—	3,141.3	—
Stockholders' Equity	—	9,976.0	—	—	8,792.7	—
Total Liabilities and Stockholders' Equity	\$—	\$118,400.7	— %	\$—	\$114,913.8	— %
Net Interest Income/Margin (FTE Adjusted)	\$350.4	\$—	1.28 %	\$306.6	\$—	1.16 %

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Net Interest Income/Margin (Unadjusted)	\$341.5 \$—	1.25 %	\$299.7 \$—	1.13 %
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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, 2017/2016		
	Average Balance	Rate	Total
Earning Assets (FTE)	\$10.6	\$63.9	\$74.5
Interest-Related Funds	7.7	23.0	30.7
Net Interest Income (FTE)	\$2.9	\$40.9	\$43.8

- (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, 2017 and 2016.
- (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 32.
- (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% for both the three months ended June 30, 2017 and 2016,

Notes: respectively. Total taxable equivalent interest adjustments amounted to \$8.9 million and \$6.9 million for the three months ended June 30, 2017 and 2016, 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 \$350.4 million in the current quarter, up \$43.8 million, or 14%, compared to \$306.6 million in the prior-year quarter. The increase was primarily the result of a higher net interest margin and growth in average earning assets. Additionally, the prior-year quarter included a pre-tax charge of \$2.7 million related to the residual value of certain aircraft and rail cars. Average earning assets for the current quarter were \$109.9 billion, up \$3.3 billion, or 3%, from \$106.6 billion in the prior-year quarter, primarily resulting from higher levels of securities and short-term interest bearing deposits, partially offset by reductions in loans and leases. Earning asset growth was funded primarily by a higher level of interest-bearing deposits.

The net interest margin on an FTE basis increased to 1.28% in the current quarter from 1.16% in the prior-year quarter primarily due to higher short-term interest rates and lower premium amortization, partially offset by an unfavorable mix shift in earning assets. The mix shift in earning assets was driven by a decline in U.S. Dollar deposits, which was more than offset by increases in non-U.S. Dollar deposits.

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 \$22.6 billion, up \$2.9 billion, or 15%, from \$19.7 billion in the prior-year quarter. Average securities were \$43.7 billion, up \$2.9 billion, or 7%, from \$40.8 billion in the prior-year quarter and include certain community development investments, Federal Home Loan Bank stock, and Federal Reserve stock of \$210.1 million, \$105.0 million and \$53.1 million, respectively, which are recorded in other assets in the consolidated balance sheets.

Loans and leases averaged \$33.9 billion, down \$564.7 million, or 2%, from \$34.5 billion in the prior-year quarter, primarily reflecting lower levels of residential real estate loans and commercial and institutional loans, partially offset by increases in private client loans. Residential real estate loans averaged \$8.0 billion, down \$794.7 million, or 9%, from \$8.8 billion for the prior-year quarter. Commercial and institutional loans averaged \$9.5 billion, down \$608.6 million, or 6%, from \$10.1 billion for the prior-



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## SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

## Net Interest Income (continued)

year quarter. Commercial real estate loans averaged \$3.8 billion, down \$132.0 million, or 3%, from \$3.9 billion for the prior-year quarter. Private client loans averaged \$10.3 billion, up \$966.2 million, or 10%, from \$9.3 billion for the prior-year quarter.

Northern Trust utilizes a diverse mix of funding sources. Total interest-bearing deposits averaged \$73.2 billion in the current quarter, compared to \$66.9 billion in the prior-year quarter, an increase of \$6.3 billion. Other interest-bearing funds averaged \$8.7 billion in the current quarter, compared to \$9.4 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 utilized to fund earning assets decreased \$2.4 billion, or 8%, to \$28.0 billion in the current quarter from \$30.4 billion in the prior-year quarter, primarily resulting from lower levels of demand and noninterest bearing deposits, partially offset by increases in stockholders' equity attributable to the issuance of Series D Non-Cumulative Perpetual Preferred Stock in August 2016 and earnings.

## Provision for Credit Losses

The provision for credit losses was a credit of \$7.0 million in the current quarter, as compared to a credit of \$3.0 million in the prior-year quarter. The credit provision in the current quarter was primarily driven by improved credit quality as well as reductions in undrawn loan commitments and standby letters of credit that resulted in a reduction in the inherent allowance. Net charge-offs in the current quarter were \$3.2 million, resulting from charge-offs of \$5.0 million and recoveries of \$1.8 million. The prior-year quarter included \$2.4 million of net charge-offs, resulting from \$4.9 million of charge-offs and \$2.5 million of recoveries. Nonperforming assets of \$166.7 million was relatively unchanged from \$166.4 million in the prior-year quarter. Residential real estate loans and commercial loans accounted for 81% and 14%, respectively, of total nonperforming loans and leases at June 30, 2017. 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 11: Noninterest Expense

Noninterest Expense (\$ In Millions)	Three Months Ended June 30,			
	2017	2016	Change	
Compensation	\$432.5	\$389.5	\$43.0	11 %
Employee Benefits	75.6	72.2	3.4	5
Outside Services	167.0	159.0	8.0	5
Equipment and Software	133.7	118.0	15.7	13
Occupancy	46.3	45.3	1.0	2
Other Operating Expense	82.3	141.0	(58.7)	(42)
Total Noninterest Expense	\$937.4	\$925.0	\$12.4	1 %

Compensation expense, the largest component of noninterest expense, totaled \$432.5 million in the current quarter, compared to \$389.5 million in the prior-year quarter. Compensation expense in the current quarter included severance and related charges of \$19.5 million. The prior-year quarter included severance and related charges of \$13.0 million. Excluding these charges, compensation expense increased \$36.5 million, or 10%, compared to the prior-year quarter, primarily related to higher salary expense driven by staff growth and base pay adjustments across all business units, higher long-term performance based incentive expense, and higher cash-based incentive accruals. Long-term performance based incentive expense increased \$8.5 million due to a change in the vesting provisions associated with long-term incentive grants to retirement-eligible employees in the prior quarter. Staff on a full-time equivalent basis at June 30, 2017 totaled approximately 17,600, up 6% from June 30, 2016.

Employee benefits expense totaled \$75.6 million in the current quarter, up 5% compared to \$72.2 million in the prior-year quarter. Employee benefits expense in the current quarter included severance and related charges of \$2.5

million. The prior-year quarter included severance and related charges of \$1.5 million. Excluding the severance and related charges, employee benefits expense increased 3% primarily due to higher payroll taxes and retirement plan expenses, partially offset by lower medical costs.

Outside services expense totaled \$167.0 million in the current quarter, up 5% compared to \$159.0 million in the prior-year quarter. Expense for outside services in the current quarter included outplacement charges associated with severance activity of \$0.8 million.

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## SECOND QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

## Noninterest Expense (continued)

The prior-year quarter included outplacement charges associated with severance activity of \$0.7 million. Excluding these charges, expense for outside services increased \$7.9 million, or 5%, compared to the prior-year quarter, primarily due to higher technical services, sub-custodian expenses, and third party advisory fees, partially offset by lower consulting services.

Equipment and software expense totaled \$133.7 million in the current quarter, up 13% compared to \$118.0 million in the prior-year quarter, primarily reflecting increased software amortization, computer maintenance, and rental costs. Other operating expense totaled \$82.3 million in the current quarter, down 42% from \$141.0 million in the prior-year quarter. Other operating expense in the prior-year quarter included a pre-tax charge in connection with an agreement to settle certain securities lending litigation of \$46.5 million, charges related to contractual modifications associated with existing Corporate and Institutional Services clients of \$18.6 million, and other personnel charges of \$2.3 million. Excluding these charges, other operating expense increased \$8.7 million, or 12%, compared to the prior-year quarter, primarily due to higher charges associated with account servicing activities, business promotion, and FDIC deposit protection expenses.

The components of other operating expense are provided below.

Table 12: Other Operating Expense

Other Operating Expense (\$ In Millions)	Three Months Ended June 30,			
	2017	2016	Change	
Business Promotion	\$19.8	\$18.5	\$1.3	7 %
Staff Related	12.8	15.9	(3.1)	(20)
FDIC Insurance Premiums	8.5	7.1	1.4	21
Other Intangibles Amortization	2.3	2.2	0.1	4
Other Expenses	38.9	97.3	(58.4)	(60)
Total Other Operating Expense	\$82.3	\$141.0	\$(58.7)	(42)%

## Provision for Income Taxes

Income tax expense was \$122.9 million in the current quarter, representing an effective tax rate of 31.4%, compared to \$131.7 million in the prior-year quarter, representing an effective tax rate of 33.4%. The decrease in the provision for income taxes compared to the prior-year quarter was based primarily on the increased income tax benefit derived from increased stock option exercises in the current quarter compared to the prior-year quarter, decreased income before income taxes, and the earnings mix in tax jurisdictions in which the Corporation operates. The provision for income tax expense for the three months ended June 30, 2017 and June 30, 2016 includes a benefit of \$6.4 million and \$2.3 million, respectively, related to excess tax benefits resulting from the vesting or exercise of stock-based compensation awards to employees.

On July 6, 2017, the Illinois legislature enacted Illinois Senate Bill 9 which retroactively enacted a permanent increase to the Illinois corporate income tax rate. Effective July 1, 2017, the overall Corporate Income and Replacement tax rate will be 9.5%, an increase of 1.75%. The increased tax rate is expected have an impact on the Corporation's overall effective tax rate in future quarters and will result in a one-time, non-cash income tax expense charge related to the Corporation's Illinois deferred tax liability.

Other changes to state tax provisions, including a reinstatement of the Illinois Research and Development credit, are not expected to have a significant impact on the Corporation.

## 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, 2017 and 2016. 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 13: Results of Reporting Segments

Three Months Ended June 30, (\$ In Millions)	Corporate & Institutional Services		Wealth Management		Treasury and Other		Total Consolidated	
	2017	2016	2017	2016	2017	2016 ^	2017	2016 ^
Noninterest Income								
Trust, Investment and Other Servicing Fees	\$487.1	\$446.9	\$361.1	\$330.3	\$—	\$—	\$848.2	\$777.2
Foreign Exchange Trading Income	50.6	62.2	0.8	1.6	(1.5 )	0.6	49.9	64.4
Other Noninterest Income	44.4	25.9	26.7	26.7	10.5	122.8	81.6	175.4
Net Interest Income*	176.0	141.2	181.8	160.2	(7.4 )	5.2	350.4	306.6
Revenue*	758.1	676.2	570.4	518.8	1.6	128.6	1,330.1	1,323.6
Provision for Credit Losses	(2.7 )	(0.8 )	(4.3 )	(2.2 )	—	—	(7.0 )	(3.0 )
Noninterest Expense	545.6	556.8	350.9	330.3	40.9	37.9	937.4	925.0
Income before Taxes*	215.2	120.2	223.8	190.7	(39.3 )	90.7	399.7	401.6
Provision for Income Taxes*	67.7	34.0	84.3	71.9	(20.2 )	32.7	131.8	138.6
Net Income	\$147.5	\$86.2	\$139.5	\$118.8	\$(19.1 )	\$58.0	\$267.9	\$263.0
Percentage of Consolidated Net Income	55 %	33 %	52 %	45 %	(7 )%	22 %	100 %	100 %
Average Assets	\$80,584.0	\$75,696.5	\$26,823.5	\$26,736.6	\$10,993.2	\$12,480.7	\$118,400.7	\$114,913.8

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\* Non-GAAP financial measures stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of \$8.9 million for 2017 and \$6.9 million for 2016. 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 28.

^ The three months ended June 30, 2016 results have been adjusted to reflect the adoption of ASU No. 2016-09. Please refer to Note 1, "Basis of Presentation," of the Notes to Consolidated Financial Statements for further discussion on the impact to the Corporation's previously reported quarterly results.

Six Months Ended June 30, (\$ In Millions)	Corporate & Institutional Services		Wealth Management		Treasury and Other		Total Consolidated		
	2017	2016	2017	2016	2017	2016^	2017	2016^	
Noninterest Income Trust, Investment and Other Servicing Fees	\$950.0	\$880.3	\$706.4	\$645.1	\$—	\$—	\$1,656.4	\$1,525.4	
Foreign Exchange Trading Income	99.7	113.9	1.7	6.1	(3.4 )	4.9	98.0	124.9	
Other Noninterest Income	88.6	71.5	52.2	53.5	15.4	123.9	156.2	248.9	
Net Interest Income*	342.5	279.6	358.8	318.7	11.5	22.3	712.8	620.6	
Revenue*	1,480.8	1,345.3	1,119.1	1,023.4	23.5	151.1	2,623.4	2,519.8	
Provision for Credit Losses	(2.4 )	(4.0 )	(5.6 )	3.0	—	—	(8.0 )	(1.0 )	
Noninterest Expense	1,056.4	1,032.1	697.2	657.2	78.3	64.5	1,831.9	1,753.8	
Income before Income Taxes*	426.8	317.2	427.5	363.2	(54.8 )	86.6	799.5	767.0	
Provision for Income Taxes*	134.6	96.2	161.1	136.8	(40.2 )	25.6	255.5	258.6	
Net Income	\$292.2	\$221.0	\$266.4	\$226.4	\$(14.6 )	\$61.0	\$544.0	\$508.4	
Percentage of Consolidated Net Income	54	% 43	% 49	% 45	% (3 )	% 12	% 100	% 100	%
Average Assets	\$79,201.4	\$75,534.7	\$26,743.1	\$26,487.2	\$11,499.3	\$12,143.5	\$117,443.8	\$114,165.4	

\* Non-GAAP financial measures stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of \$17.8 million for 2017 and \$13.1 million for 2016. 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 28.

^ The six months ended June 30, 2016 results have been adjusted to reflect the adoption of ASU No. 2016-09. Please refer to Note 1, "Basis of Presentation," of the Notes to Consolidated Financial Statements for further discussion on the impact to the Corporation's previously reported quarterly results.

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## REPORTING SEGMENTS (continued)

## Corporate &amp; Institutional Services

C&IS net income totaled \$147.5 million in the current quarter compared to \$86.2 million in the prior-year quarter, an increase of \$61.3 million, or 71%. Noninterest income was \$582.1 million in the current quarter, up \$47.1 million, or 9%, from \$535.0 million in the prior-year quarter, reflecting higher trust, investment and other servicing fees and other operating income, partially offset by lower foreign exchange trading income. The following table provides a summary of C&IS trust, investment and other servicing fees.

Table 14: C&amp;IS Trust, Investment and Other Servicing Fees

(\$ In Millions)	Three Months Ended June 30,			
	2017	2016	Change	
Custody and Fund Administration	\$327.5	\$293.3	\$34.2	12 %
Investment Management	99.3	94.2	5.1	5
Securities Lending	24.6	26.8	(2.2)	(8)
Other	35.7	32.6	3.1	10
Total C&IS Trust, Investment and Other Servicing Fees	487.1	\$446.9	\$40.2	9 %

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 increased \$34.2 million, or 12%, from the prior-year quarter, primarily due to new business and favorable equity markets, partially offset by the unfavorable impact of movements in foreign exchange rates. Investment management fees increased \$5.1 million, or 5%, primarily due to the favorable impact of equity markets. Other fees increased 10%, primarily due to new business.

Foreign exchange trading income totaled \$50.6 million in the current quarter, a decrease of \$11.6 million, or 19%, from \$62.2 million in the prior-year quarter. The decrease generally reflected lower currency volatility as compared to the prior-year quarter.

Other noninterest income in C&IS totaled \$44.4 million in the current quarter, up \$18.5 million, or 71%, from \$25.9 million in the prior-year quarter, primarily due to impairment charges recorded in the prior-year quarter associated with 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.

Net interest income stated on an FTE basis was \$176.0 million in the current quarter, up \$34.8 million, or 25%, from \$141.2 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 0.94% from 0.82% in the prior-year quarter, primarily reflecting higher short-term interest rates. The average earning assets totaled \$74.8 billion, up from \$69.4 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 \$51.7 billion in the current quarter, up from \$46.4 billion in the prior-year quarter.

The provision for credit losses was a credit provision of \$2.7 million in the current quarter, compared with a credit provision of \$0.8 million in the prior-year quarter, reflecting 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 \$545.6 million in the current quarter, down \$11.2 million, or 2%, from \$556.8 million in the prior-year quarter. Noninterest expense in the current quarter included severance and related charges of \$15.3 million. Noninterest



expense in the prior-year quarter included severance and related charges of \$7.4 million. Other operating expense in the prior-year 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

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## REPORTING SEGMENTS (continued)

## Corporate &amp; Institutional Services (continued)

with existing C&IS clients of \$18.6 million. Excluding these charges, C&IS noninterest expense increased \$46.0 million, primarily attributable to higher indirect expense allocations and compensation expenses.

## Wealth Management

Wealth Management net income was \$139.5 million in the current quarter, up 17% from \$118.8 million in the prior-year quarter. Noninterest income was \$388.6 million, up from \$358.6 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 \$361.1 million in the current quarter, increasing \$30.8 million, or 9%, from \$330.3 million in the prior-year quarter. The following table provides a summary of Wealth Management trust, investment and other servicing fees.

Table 15: Wealth Management Trust, Investment and Other Servicing Fees

(\$ In Millions)	Three Months Ended June 30,			
	2017	2016	Change	
Central	\$143.1	\$130.2	\$12.9	10%
East	88.3	84.5	3.8	5
West	73.4	67.5	5.9	9
Global Family Office	56.3	48.1	8.2	17
Total Wealth Management Trust, Investment and Other Servicing Fees	\$361.1	\$330.3	\$30.8	9%

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 equity markets and new business.

Foreign exchange trading income totaled \$0.8 million, down 50% from \$1.6 million in the prior-year quarter, primarily reflecting lower currency volatility.

Net interest income stated on an FTE basis was \$181.8 million in the current quarter, up \$21.6 million, or 13%, from \$160.2 million in the prior-year quarter, primarily reflecting an increase in the net interest margin. The net interest margin increased to 2.75% from 2.43% in the prior-year quarter. Average earning assets increased \$51.8 million to \$26.6 billion from the prior-year quarter's \$26.5 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 \$4.3 million in the current quarter, compared with a credit provision of \$2.2 million in the prior-year quarter, reflecting a reduction in the inherent allowance requirement due to 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 \$350.9 million in the current quarter, compared to \$330.3 million in the prior-year quarter, an increase of \$20.6 million, or 6%. Noninterest expense in the current quarter included severance and related charges of \$7.5 million. Noninterest expense in the prior-year quarter included severance and related charges of \$9.7 million. Excluding these charges, noninterest expense increased \$22.8 million, primarily attributable to higher indirect expense allocations and compensation expenses.

## 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 was \$9.0 million in the current quarter, down \$114.4 million from \$123.4 million in the prior-year quarter, primarily related to the pre-tax 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, recorded in the prior-year quarter.



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REPORTING SEGMENTS (continued)

Treasury and Other (continued)

Net interest income decreased \$12.6 million, from \$5.2 million in the prior-year quarter to net interest expense of \$7.4 million in the current quarter, primarily reflecting higher premium amortization in the securities portfolio and a decline in the net interest margin driven by a mix shift in earning assets. Average earning assets decreased \$2.1 billion to \$8.6 billion from the prior-year quarter's \$10.7 billion.

Noninterest expense totaled \$40.9 million in the current quarter, up \$3.0 million, or 8%, from \$37.9 million in the prior-year quarter. The prior-year quarter included severance and related charges of \$0.4 million. Excluding these charges, noninterest expense increased \$3.4 million, primarily reflecting higher general overhead costs, including compensation expense and equipment and software expense, partially offset by higher indirect expense allocations to C&IS and Wealth Management, as compared to the prior-year quarter.

The provision for income taxes was a benefit of \$20.2 million in the current quarter compared to a \$32.7 million provision in the prior-year quarter, primarily reflecting decreased income before income taxes and increased stock option exercises compared to the prior-year quarter, which resulted in a tax benefit of \$6.4 million for the three months ended June 30, 2017 as compared to a tax benefit of \$2.3 million for the three months ended June 30, 2016.

SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS

Overview

Net income per diluted common share was \$2.21 for the six months ended June 30, 2017, and \$2.13 in the comparable prior-year period. Net income totaled \$544.0 million, up \$35.6 million, or 7%, compared to \$508.4 million in the prior-year period. The performance in the current period produced an annualized return on average common equity of 11.6%, compared to 12.0% in the prior-year period. The annualized return on average assets was 0.93% in the current period compared to 0.90% in the prior-year period.

The current period included expense charges of \$22.8 million (\$14.9 million after tax, or \$0.06 per diluted common share) associated with severance and related activities.

The prior-year period included the pre-tax 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 pre-tax charge in connection with an agreement to settle certain securities lending litigation of \$46.5 million (\$28.9 million after tax, or \$0.12 per diluted common share); charges related to contractual modifications associated with existing Corporate and Institutional Services 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).

Revenue for the six months ended June 30, 2017 totaled \$2.61 billion, up \$98.9 million, or 4%, as compared to \$2.51 billion in the prior-year period. The prior-year period included 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, partially 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 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, revenue increased \$195.5 million, or 8%, primarily driven by increased trust, investment and other servicing fees and net interest income, partially offset by lower foreign exchange trading income.

Net interest income increased 14% to \$695.0 million in the current period as compared to \$607.5 million in the prior-year period, due to a higher net interest margin and growth in earning assets. Additionally, the prior-year period included a pre-tax charge of \$2.7 million related to the residual value of certain aircraft and rail cars.

The provision for credit losses was a credit of \$8.0 million in the current period, as compared to a credit of \$1.0 million in the prior-year period.

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## SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

## Overview (continued)

Noninterest expense was \$1.8 billion in both the current and prior-year periods. The current period included expense charges of \$22.8 million associated with severance and related activities. The prior-year period included a pre-tax 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 severance, other personnel and related charges of \$17.5 million. Excluding the current- and prior-year period charges, noninterest expense increased \$137.9 million, or 8%, primarily attributable to higher compensation, equipment and software, outside services, and employee benefits expense.

On February 19, 2017, the Corporation entered into a definitive agreement with UBS AG to acquire UBS Asset Management's fund administration servicing businesses in Luxembourg and Switzerland, for an initial purchase price of approximately \$175 million in cash, subject to adjustment. The transaction is expected to close in the second half of 2017, subject to applicable regulatory and fund board approvals and other customary closing conditions.

## Noninterest Income

The components of noninterest income are provided below.

Table 16: Six Months Ended June 30 Noninterest Income

Noninterest Income (\$ In Millions)	Six Months Ended June 30,			Change	
	2017	2016			
Trust, Investment and Other Servicing Fees	\$1,656.4	\$1,525.4	\$131.0	9	%
Foreign Exchange Trading Income	98.0	124.9	(26.9)	(22)	
Treasury Management Fees	29.6	32.2	(2.6)	(8)	
Security Commissions and Trading Income	44.6	39.5	5.1	13	
Other Operating Income	82.7	179.3	(96.6)	(54)	
Investment Security Gains (Losses), net	(0.7)	(2.1)	1.4	(65)	
Total Noninterest Income	\$1,910.6	\$1,899.2	\$11.4	1	%

As illustrated in the following table, trust, investment and other servicing fees from C&IS increased \$69.7 million, or 8%, totaling \$950.0 million, compared to \$880.3 million a year ago.

Table 17: Six Months Ended June 30 C&amp;IS Trust, Investment and Other Servicing Fees

C&IS Trust, Investment and Other Servicing Fees (\$ In Millions)	Six Months Ended June 30,			Change	
	2017	2016			
Custody and Fund Administration	\$635.0	\$579.7	\$55.3	10	%
Investment Management	192.8	183.3	9.5	5	
Securities Lending	48.4	49.4	(1.0)	(2)	
Other	73.8	67.9	5.9	9	
Total	\$950.0	\$880.3	\$69.7	8	%

Custody and fund administration fees, the largest component of C&IS fees, increased 10%, primarily driven by new business and favorable equity markets, partially offset by the unfavorable impact of movements in foreign exchange rates. C&IS investment management fees increased 5%, primarily due to the favorable impact of equity markets and lower money market mutual fund fee waivers. There were no C&IS money market mutual fund fee waivers in the current period compared to \$1.8 million in the prior-year period. Other fees in C&IS increased 9%, primarily due to new business.

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## SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

## Noninterest Income (continued)

As illustrated in the following table, trust, investment and other servicing fees from Wealth Management totaled \$706.4 million, up from \$645.1 million a year ago.

Table 18: Six Months Ended June 30 Wealth Management Trust, Investment and Other Servicing Fees

(\$ In Millions)	Six Months Ended June 30,			
	2017	2016	Change	
Wealth Management Trust, Investment and Other Servicing Fees				
Central	\$280.5	\$254.6	\$25.9	10%
East	173.5	165.5	8.0	5
West	143.0	131.4	11.6	9
Global Family Office	109.4	93.6	15.8	17
Total	\$706.4	\$645.1	\$61.3	10%

The increase in Wealth Management fees across the regions was primarily attributable to favorable equity markets, new business, and lower money market mutual fund fee waivers in the current period. Money market mutual fund fee waivers in Wealth Management totaled \$0.5 million compared with \$6.1 million in the prior-year period.

Foreign exchange trading income decreased \$26.9 million, or 22%, and totaled \$98.0 million compared with \$124.9 million in the prior-year period. The decrease was attributable to lower currency volatility and client volumes compared to the prior-year period.

Other operating income decreased 54% to \$82.7 million compared with \$179.3 million in the prior-year period. The components of other operating income are provided below.

Table 19: Six Months Ended June 30 Other Operating Income

(\$ In Millions)	Six Months Ended June 30,			
	2017	2016	Change	
Other Operating Income				
Loan Service Fees	\$25.7	\$28.2	\$(2.5)	(9)%
Banking Service Fees	24.9	25.2	(0.3)	(1)%
Other Income	32.1	125.9	(93.8)	(75)
Total Other Operating Income	\$82.7	\$179.3	\$(96.6)	(54)%

The prior-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. Excluding these items, other operating income increased 3% from the prior-year period, primarily due to net gains on hedging activity.

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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 20: 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) (\$ In Millions)	2017		2016			
	Interest	Average Balance	Rate <sup>(5)</sup>	Interest	Average Balance	Rate <sup>(5)</sup>
<b>Average Earning Assets</b>						
Federal Reserve and Other Central Bank Deposits	\$63.4	\$22,190.6	0.58 %	\$49.6	\$20,413.9	1.80 %
Interest-Bearing Due from and Deposits with Banks <sup>(1)</sup>	29.0	7,171.8	0.82	34.0	9,442.4	0.72
Federal Funds Sold and Securities Purchased under Agreements to Resell	14.0	2,035.7	1.38	8.0	1,754.5	0.92
<b>Securities</b>						
U.S. Government	45.0	6,816.6	1.33	40.2	6,687.8	1.21
Obligations of States and Political Subdivisions	7.0	959.1	1.47	4.2	329.6	2.57
Government Sponsored Agency	130.6	17,843.0	1.48	85.8	17,055.6	1.01
Other <sup>(2)</sup>	113.8	18,633.1	1.23	81.8	15,707.0	1.05
Total Securities	296.4	44,251.8	1.35	212.0	39,780.0	1.07
Loans and Leases <sup>(3)</sup>	442.5	33,781.9	2.64	406.2	34,224.7	2.39
Total Earning Assets	845.3	109,431.8	1.56	709.8	105,615.5	1.35
Allowance for Credit Losses Assigned to Loans and Leases	—	(161.5 )	—	—	(194.5 )	—
Cash and Due from Banks and Other Central Bank Deposits <sup>(4)</sup>	—	2,410.5	—	—	2,143.2	—
Buildings and Equipment	—	465.5	—	—	442.9	—
Client Security Settlement Receivables	—	829.3	—	—	1,166.8	—
Goodwill	—	520.6	—	—	527.2	—
Other Assets	—	3,947.6	—	—	4,464.3	—
Total Assets	\$—	\$117,443.8	— %	\$—	\$114,165.4	— %
<b>Average Source of Funds</b>						
<b>Deposits</b>						
Savings, Money Market and Other	\$7.9	\$15,340.8	0.10 %	\$5.6	\$15,204.3	0.07 %
Savings Certificates and Other Time	4.7	1,325.6	0.71	3.8	1,432.3	0.54
Non-U.S. Offices — Interest-Bearing	56.0	54,565.7	0.21	34.0	49,939.3	0.14
Total Interest-Bearing Deposits	68.6	71,232.1	0.19	43.4	66,575.9	0.13
Short-Term Borrowings	21.2	5,534.8	0.77	8.3	5,889.6	0.28
Senior Notes	23.5	1,496.8	3.16	23.4	1,496.8	3.15
Long-Term Debt	17.0	1,431.1	2.39	12.5	1,401.3	1.80
Floating Rate Capital Debt	2.2	277.4	1.63	1.6	277.3	1.17
Total Interest-Related Funds	132.5	79,972.2	0.33	89.2	75,640.9	0.24
Interest Rate Spread	—	—	1.23	—	—	1.11
Demand and Other Noninterest-Bearing Deposits	—	24,609.3	—	—	26,466.3	—
Other Liabilities	—	2,978.1	—	—	3,316.3	—
Stockholders' Equity	—	9,884.2	—	—	8,741.9	—
Total Liabilities and Stockholders' Equity	\$—	\$117,443.8	— %	\$—	\$114,165.4	— %



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Net Interest Income/Margin (FTE Adjusted)	\$712.8 \$—	1.31 %	\$620.6 \$—	1.18 %
Net Interest Income/Margin (Unadjusted)	\$695.0 \$—	1.28 %	\$607.5 \$—	1.16 %

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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, 2017/2016		
	Change Due To		
	Average Balance	Rate	Total
Earning Assets (FTE)	\$10.1	\$125.4	\$135.5
Interest-Related Funds	18.4	24.9	43.3
Net Interest Income (FTE)	\$(8.3)	\$100.5	\$92.2

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 \$212.4 million, \$109.7 million and \$53.1 million, which are classified in other assets in the consolidated balance sheets as of June 30, 2017 and 2016.

(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 32.

(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 37.8% for both the six months ended June 30, 2017 and 2016, respectively. Total taxable equivalent interest adjustments amounted to \$17.8 million and \$13.1 million for the six months ended June 30, 2017 and 2016, 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 \$712.8 million, an increase of \$92.1 million, or 15%, from \$620.6 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 prior-year period included a charge of \$2.7 million related to the residual value of certain aircraft and rail cars. Average earning assets were \$109.4 billion, up \$3.8 billion, or 4%, from \$105.6 billion in the prior-year period, primarily attributable to higher levels of securities. The net interest margin, on an FTE basis, increased to 1.31% from 1.18% in the prior-year period.

## Provision for Credit Losses

The provision for credit losses was a credit of \$8.0 million in the current-year period, compared to a credit of \$1.0 million in the prior-year period. The credit provision in the current period was primarily driven by improved credit quality as well as reductions in outstanding loans and undrawn loan commitments and standby letters of credit that resulted in a reduction in the inherent allowance. Net charge-offs in the current-year period totaled \$5.2 million resulting from \$9.7 million of charge-offs and \$4.5 million of recoveries, compared to net charge-offs of \$5.1 million

in the prior-year period resulting from \$10.2 million of charge-offs and \$5.1 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 81% of total nonperforming loans and leases at both June 30, 2017 and 2016. Loan balances within the private client, commercial and institutional, and non-U.S. loan portfolios increased in the current period, while the residential real estate and commercial real estate loan balances 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 \$1.83 billion for the current period, up \$78.1 million, or 4%, compared to \$1.75 billion in the prior-year period. The components of noninterest expense are provided below.

Table 21: Six Months Ended June 30 Noninterest Expense

Noninterest Expense (\$ In Millions)	Six Months Ended June 30,			Change	
	2017	2016			
Compensation	\$858.3	\$768.3	\$90.0	12	%
Employee Benefits	153.4	142.8	10.6	7	
Outside Services	320.1	308.9	11.2	4	
Equipment and Software	261.0	232.2	28.8	12	
Occupancy	91.7	86.2	5.5	6	
Other Operating Expense	147.4	215.4	(68.0)	(32)	
Total Noninterest Expense	\$1,831.9	\$1,753.8	\$78.1	4	%

Compensation expense, the largest component of noninterest expense, increased to \$858.3 million from the prior-year period's \$768.3 million. Compensation expense in the current period included severance and related charges of \$19.5 million. The prior-year period included severance and related charges of \$13.0 million. Excluding the severance and related charges, compensation expense increased \$83.5 million, or 11%, compared to the prior-year period, primarily reflecting higher long-term performance-based incentive compensation, higher salary expense driven by staff growth and base pay adjustments, and higher cash-based incentive accruals.

Employee benefits expense of \$153.4 million was up \$10.6 million, or 7%, from \$142.8 million in the prior-year period. Employee benefits expense in the current period included severance and related charges of \$2.5 million. The prior-year period included severance and related charges of \$1.5 million. Excluding the severance and related charges, employee benefits expense increased \$9.6 million, or 7%, compared to the prior-year period, primarily reflecting higher payroll taxes.

Outside services expense equaled \$320.1 million, up from \$308.9 million in the prior-year period. Expense for outside services in the current period included outplacement charges associated with severance activity of \$0.8 million. The prior-year period included outplacement charges associated with severance activity of \$0.7 million. Excluding these charges, expense for outside services increased \$11.1 million, or 4%, compared to the prior-year period, primarily reflecting increased technical services and sub-custodian expense, partially offset by lower consulting services.

Equipment and software expense totaled \$261.0 million, up \$28.8 million, or 12% from \$232.2 million in the prior-year period, reflecting increased software amortization and software support costs.

Occupancy expense equaled \$91.7 million, up \$5.5 million, or 6%, from \$86.2 million in the prior-year period, reflecting higher rent expense.

Other operating expense totaled \$147.4 million, up \$68.0 million, or 32%, from \$215.4 million in the prior-year period. The components of other operating expense are provided below.

Table 22: Six Months Ended June 30 Other Operating Expense

Other Operating Expense (\$ In Millions)	Six Months Ended June 30,			Change	
	2017	2016			
Business Promotion	\$36.0	\$48.0	\$(12.0)	(25)	%
Staff Related	21.4	21.8	(0.4)	(2)	)
FDIC Insurance Premiums	17.0	13.3	3.7	27	
Other Intangibles Amortization	4.7	4.3	0.4	8	
Other Expenses	68.3	128.0	(59.7)	(47)	)
Total Other Operating Expense	\$147.4	\$215.4	\$(68.0)	(32)	)



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## SIX-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

## Noninterest Expense (continued)

Other operating expense in the prior-year period included a pre-tax charge in connection with an agreement to settle certain securities lending litigation of \$46.5 million, charges related to contractual modifications associated with existing Corporate and Institutional Services clients of \$18.6 million, and other personnel charges of \$2.3 million. Excluding these charges, other operating expense was relatively unchanged from the prior-year period, with decreases in business promotion, driven by the timing of the Northern Trust sponsored PGA TOUR golf tournament moving from the first quarter to the third quarter of 2017, and staff related expenses, partially offset by higher charges associated with account servicing activities and FDIC deposit protection expense.

## Provision for Income Taxes

Income tax expense was \$237.7 million for the six months ended June 30, 2017, representing an effective tax rate of 30.4%. The provision for income taxes was \$245.5 million for the six months ended June 30, 2016, representing an effective tax rate of 32.6%. The decrease in the provision for income taxes compared to the prior-year period was based primarily on the increased income tax benefit derived from increased vesting of restricted stock units and stock option exercises in the current period compared to the prior-year period, partially offset by increased income before income taxes. The provision for income tax expense for the six months ended June 30, 2017 and June 30, 2016 includes a benefit of \$22.7 million and \$5.9 million, respectively, related to excess tax benefits resulting from the vesting or exercise of stock-based compensation awards to employees.

## CONSOLIDATED BALANCE SHEETS

Total assets were \$125.6 billion and \$123.9 billion at June 30, 2017 and December 31, 2016, respectively, and averaged \$118.4 billion in the current quarter compared with \$114.9 billion in the quarter ended June 30, 2016. Average balances are considered to be a better measure of balance sheet trends, as period-end balances can be impacted by the timing of deposit and withdrawal activity involving large client balances. Loans and leases totaled \$33.5 billion and \$33.8 billion at June 30, 2017 and December 31, 2016, respectively, and averaged \$33.9 billion in the current quarter, down 2% from \$34.5 billion in the quarter ended June 30, 2016. 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 \$43.8 billion and \$44.9 billion at June 30, 2017 and December 31, 2016, respectively, and averaged \$43.7 billion for the current quarter, up 7% from \$40.8 billion in the quarter ended June 30, 2016. 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 \$39.0 billion and \$36.7 billion at June 30, 2017 and December 31, 2016, respectively, and averaged \$32.3 billion in the current quarter, up 3% from the quarter ended June 30, 2016, primarily reflecting increased Federal Reserve and other central bank deposits, partially offset by decreased interest-bearing due from and deposits with banks. Interest-bearing client deposits at June 30, 2017 and December 31, 2016, totaled \$75.2 billion and \$71.5 billion, respectively, and averaged \$73.2 billion in the current quarter compared to \$66.9 billion in the quarter ended June 30, 2016. Noninterest-bearing client deposits at June 30, 2017 and December 31, 2016 totaled \$29.1 billion and \$30.2 billion, respectively, and averaged \$23.5 billion in the current quarter, down 12% from \$26.7 billion in the quarter ended June 30, 2016.

Total stockholders' equity at June 30, 2017, was \$10.1 billion compared to \$9.8 billion at December 31, 2016, and averaged \$10.0 billion for the current quarter, up 13% from \$8.8 billion for the quarter ended June 30, 2016. The increase in average stockholders' equity compared to the prior-year quarter was primarily attributable to earnings and the issuance of Series D Non-Cumulative Perpetual Preferred Stock (Series D preferred stock) in August 2016, 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, 2017, the Corporation declared cash dividends totaling \$88.9 million and \$178.3 million to common stockholders, and cash dividends totaling \$5.9 million and \$26.6 million to preferred stockholders, respectively. During the three and six months ended June 30, 2017, the Corporation repurchased 1,760,264 shares of common stock, including 4,342 shares withheld related to share-based compensation, at a total

cost of \$157.6 million (\$89.52 average price per share) and 2,571,994 shares of common stock, including 415,211 shares withheld related to share-based compensation, at a total cost of \$227.7 million (\$88.53 average price per share), respectively.

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## CAPITAL RATIOS

The capital ratios of Northern Trust and its principal subsidiary, The Northern Trust Company, remained strong at June 30, 2017, exceeding the minimum requirements for classification as “well-capitalized” under applicable U.S. regulatory requirements.

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

Table 23: Regulatory Capital Ratios

Capital Ratios — Northern Trust Corporation	June 30, 2017		March 31, 2017		June 30, 2016	
	Advanced Approach	Standardized Approach	Advanced Approach	Standardized Approach	Advanced Approach	Standardized Approach
Common Equity Tier 1	13.2%	12.3 %	12.9%	12.2 %	11.5%	10.6 %
Tier 1	14.5%	13.5 %	14.2%	13.4 %	12.0%	11.0 %
Total	16.5%	15.6 %	15.6%	15.0 %	13.5%	12.7 %
Tier 1 Leverage	8.1 %	8.1 %	8.2 %	8.2 %	7.4 %	7.4 %
Supplementary Leverage	7.0 %	N/A	6.9 %	N/A	6.2 %	N/A

Capital Ratios — The Northern Trust Company	June 30, 2017		March 31, 2017		June 30, 2016	
	Advanced Approach	Standardized Approach	Advanced Approach	Standardized Approach	Advanced Approach	Standardized Approach
Common Equity Tier 1	13.3%	12.1 %	12.9%	12.0 %	11.6%	10.4 %
Tier 1	13.3%	12.1 %	12.9%	12.0 %	11.6%	10.4 %
Total	14.9%	13.9 %	14.6%	13.8 %	13.3%	12.3 %
Tier 1 Leverage	7.2 %	7.2 %	7.2 %	7.2 %	7.0 %	7.0 %
Supplementary Leverage	6.2 %	N/A	6.1 %	N/A	5.8 %	N/A

## STATEMENTS OF CASH FLOWS

Net cash provided by operating activities of \$312.6 million for the six months ended June 30, 2017, was primarily attributable to period earnings, including the impact of non-cash charges such as amortization of computer software, and higher net collateral deposited with derivative counterparties, partially offset by net changes in other operating activities due to incentive payments and a decrease in accounts payable. For the six months ended June 30, 2016, net cash used in operating activities of \$507.2 million was primarily attributable to increased net collateral deposited with counterparties and other operating activities, partially offset by period earnings.

Net cash used in investing activities of \$298.0 million for the six months ended June 30, 2017, was primarily attributable to increased levels of Federal Reserve and other central bank deposits, offset by net proceeds from sale, maturity and redemption of securities available for sale. For the six months ended June 30, 2016, net cash used in investing activities of \$4.9 billion was primarily attributable to net purchases of securities available for sale and held to maturity and increased loans and leases.

Net cash provided by financing activities of \$184.1 million for the six months ended June 30, 2017, was primarily attributable to increased levels of total deposits and the proceeds from the issuance of fixed-to-floating rate subordinated notes, partially offset by lower short-term other borrowings, the repurchase of common stock pursuant to the Corporation’s share repurchase program, and cash dividends paid to common and preferred stockholders. The increase in total deposits was attributable to higher levels of interest-bearing and non-interest bearing non-U.S. office client deposits. For the six months ended June 30, 2016, net cash provided by financing activities of \$4.1 billion primarily reflected 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 and preferred 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.





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ASSET QUALITY

Securities Portfolio

Northern Trust maintains a high quality securities portfolio, with 82% of the combined available for sale, held to maturity, and trading account portfolios at June 30, 2017, composed 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, 9% was rated double-A, 3% was rated below double-A, and 6% was not rated by Standard and Poor's or Moody's Investors Service (primarily negotiable certificates of deposits of banks and non-U.S. sovereign securities whose long term ratings are at least A).

Net unrealized losses within the investment securities portfolio totaled \$40.8 million at June 30, 2017, compared to net unrealized losses of \$68.1 million as of December 31, 2016. Net unrealized losses as of June 30, 2017 were comprised of \$112.8 million and \$153.6 million of gross unrealized gains and losses, respectively. Of the unrealized losses on securities at June 30, 2017, the largest component was \$61.6 million of government sponsored agency securities which were primarily attributable to changes in market rates since purchase. \$36.3 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. Also, \$19.9 million of the unrealized losses related to corporate debt securities, primarily reflecting widened credit spreads and higher market rates since purchase. As of June 30, 2017, 37% of the corporate debt portfolio was backed by guarantees provided by U.S. and non-U.S. governmental entities.

For the six months ended June 30, 2017, charges of \$0.1 million were recorded relating to the other-than-temporary impairment (OTTI) of certain CRA eligible securities. There were \$2.4 million OTTI losses for the six months ended June 30, 2016. 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.

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.

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## ASSET QUALITY (continued)

## Nonperforming Loans and Leases and Other Real Estate Owned (continued)

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.

Effective for the period ended June 30, 2017, the Corporation implemented a change in the classification of certain nonperforming loans and leases to enhance the consistency of its reporting across various regulatory regimes. As a result, prior-period balances below have been adjusted to conform with current-period presentation. These adjustments generally reflect reclassification of nonperforming loans and leases from the commercial and institutional class to the residential real estate class. There was no impact on total nonperforming loans and leases previously reported.

Table 24: Nonperforming Assets

(\$ In Millions)	June 30, 2017	March 31, 2017	June 30, 2016
Nonperforming Loans and Leases			
Commercial			
Commercial and Institutional	\$21.6	\$25.9	\$13.9
Commercial Real Estate	8.6	12.1	12.2
Total Commercial	30.2	38.0	26.1
Personal			
Residential Real Estate	128.7	141.7	123.9
Private Client	0.1	0.2	2.2
Total Personal	128.8	141.9	126.1
Total Nonperforming Loans and Leases	159.0	179.9	152.2
Other Real Estate Owned	7.7	6.9	14.2
Total Nonperforming Assets	166.7	186.8	166.4
90 Day Past Due Loans Still Accruing	\$64.6	\$9.9	\$8.3
Nonperforming Loans and Leases to Total Loans and Leases	0.47 %	0.54 %	0.44 %
Coverage of Loan and Lease Allowance to Nonperforming Loans and Leases	1.0 x	0.9x	1.3x

Nonperforming assets of \$166.7 million as of June 30, 2017 increased slightly compared to the prior year, primarily reflecting increases within the commercial and residential real estate portfolios, which resulted in an increase to the specific allowance for credit losses, partially offset by payments and charge-offs within the commercial real estate and private client portfolios. 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 80% 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.

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ASSET QUALITY (continued)

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 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 \$7.0 million in the current quarter, compared to a credit of \$3.0 million in the prior-year quarter. Net charge-offs were \$3.2 million, resulting from \$5.0 million of charge-offs and \$1.8 million of recoveries, compared to \$2.4 million of net charge-offs in the prior-year quarter, resulting from \$4.9 million of charge-offs and \$2.5 million of recoveries. Residential real estate loans accounted for 81% of total nonperforming loans and leases at June 30, 2017 and 2016.

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, 2017 and 2016 due to charge-offs, recoveries and provisions for credit losses.

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## ASSET QUALITY (continued)

## Provision and Allowance for Credit Losses (continued)

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 25: Allocation of the Allowance for Credit Losses

(\$ In Millions)	June 30, 2017		March 31, 2017		June 30, 2016	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
Specific Allowance	\$8.7	— %	\$8.7	— %	\$1.3	— %
Allocated Inherent Allowance						
Commercial						
Commercial and Institutional	33.7	27	34.9	28	38.9	29
Commercial Real Estate	58.7	11	68.1	12	70.5	11
Lease Financing, net	—	1	0.3	1	1.7	1
Non-U.S.	—	6	—	5	—	6
Other	1.1	1	0.6	1	2.5	1
Total Commercial	93.5	46	103.9	47	113.6	48
Personal						
Residential Real Estate	63.8	23	65.9	22	91.0	24
Private Client	10.7	31	8.3	31	21.2	28
Other	2.1	—	2.2	—	—	—
Total Personal	76.6	54	76.4	53	112.2	52
Total Allocated Inherent Allowance	\$170.1	100 %	\$180.3	100 %	\$225.8	100 %
Total Allowance for Credit Losses	\$178.8		\$189.0		\$227.1	
Allowance Assigned to						
Loans and Leases	\$153.8		\$162.0		\$192.0	
Undrawn Commitments and Standby Letters of Credit	25.0		27.0		35.1	
Total Allowance for Credit Losses	\$178.8		\$189.0		\$227.1	
Allowance Assigned to Loans and Leases to Total	0.46 %		0.48 %		0.56 %	
Loans and Leases						

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## MARKET RISK MANAGEMENT

There are two types of market risk, interest rate risk and trading risk. Interest rate risk is the potential for movements in interest rates to cause changes in net interest income and the market value of equity. Trading risk is the potential for movements in market variables such as foreign exchange and interest rates to cause changes in the value of trading positions.

Northern Trust uses two primary measurement techniques to manage interest rate risk: Net Interest Income (NII) sensitivity and Market Value of Equity (MVE) sensitivity. Simulation of NII provides management with a short-term view of the impact of interest rate changes on NII. Simulation of MVE provides management with a long-term view of interest rate changes on MVE as of the period-end balance sheet. Both simulation models use the same initial market interest rates and product balances.

As part of its risk management activities, Northern Trust also regularly measures the risk of loss associated with foreign currency positions using a Value-at-Risk (VaR) model. The following information about Northern Trust's management of market risk should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2016.

**NII Sensitivity** — The modeling of NII sensitivity incorporates on-balance-sheet positions, as well as derivative financial instruments (principally interest rate swaps) that are used to manage interest rate risk. Northern Trust uses market implied forward interest rates as the base case and measures the sensitivity (i.e., change) of a static balance sheet to changes in interest rates. Stress testing of interest rates is performed to include such scenarios as immediate parallel shocks to rates, nonparallel (i.e., twist) changes to yield curves that result in their becoming steeper or flatter, and changes to the relationship among the yield curves (i.e., basis risk).

The NII sensitivity analysis incorporates certain critical assumptions such as interest rates, balance sheet changes, and client behaviors under changing rate environments. These assumptions are based on a combination of historical analysis and future expected pricing behavior. The simulation cannot precisely estimate NII sensitivity given uncertainty in the assumptions; therefore, there could be a change in NII sensitivity to the extent that actual behavior differs from that assumed. The following key assumptions are incorporated into the simulation:

the balance sheet size and mix generally remains constant over the simulation horizon with maturing assets and liabilities replaced with instruments with similar terms as those that are maturing, with the exception of certain products such as securities (the assumed reinvestment of which is determined by management's strategies); non-maturity deposits, of which some recent increases are assumed to be temporary in nature; and long-term fixed rate borrowings, which upon maturity are replaced with overnight wholesale instruments;

prepayments on mortgage loans and securities collateralized by mortgages are projected under each rate scenario using a third-party mortgage analytics system that incorporates market prepayment assumptions;

cash flows for structured securities are estimated using a third-party vendor in conjunction with the prepayments provided by the third-party mortgage analytics vendor;

non-maturity deposit pricing and lives are projected based on Northern Trust's actual historical patterns and management judgment, depending upon the availability of historical data and current pricing strategies/or judgment;

and

new business rates are based on current spreads to market indices.

The following table shows the estimated NII impact over the next twelve months of 100 and 200 basis point upward movements in interest rates relative to forward rates. Each rate movement is assumed to occur gradually over a one-year period. Given the low level of interest rates, the simulation of NII for rates 100 and 200 basis points lower would not provide meaningful results.

Table 26: Net Interest Income Sensitivity

(\$ In Millions)	Increase/(Decrease) Estimated Impact on Next Twelve Months of Net Interest Income
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Increase in Interest Rates Above Market-Implied Forward Rates

100 Basis Points	\$	24
200 Basis Points		39

The NII sensitivity analysis does not incorporate any management actions that may be used to mitigate negative consequences of actual interest rate movement. For that reason and others, they do not reflect the likely actual results but serve as conservative estimates of interest rate risk. NII sensitivity is not comparable to actual results disclosed elsewhere or directly predictive of future values of other measures provided.



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## MARKET RISK MANAGEMENT (continued)

MVE Sensitivity — MVE is defined as the present value of assets minus the present value of liabilities, net of the value of instruments that are used to manage the interest rate risk of balance sheet items. The potential effect of interest rate changes on MVE is derived from the impact of such changes on projected future cash flows and the present value of these cash flows and is then compared to the established limit. Northern Trust uses current market rates (and the future rates implied by these market rates) as the base case and measures MVE sensitivity under various rate scenarios. Stress testing of interest rates is performed to include such scenarios as immediate parallel shocks to rates, nonparallel (i.e., twist) changes to yield curves that result in their becoming steeper or flatter, and changes to the relationship among the yield curves (i.e., basis risk).

The MVE sensitivity analysis incorporates certain critical assumptions such as interest rates and client behaviors under changing rate environments. These assumptions are based on a combination of historical analysis and future expected pricing behavior. The simulation cannot precisely estimate MVE sensitivity given uncertainty in the assumptions; therefore, there could be a change in MVE sensitivity to the extent that actual behavior differs from the incorporated assumptions. Many of the assumptions that apply to NII sensitivity also apply to MVE sensitivity simulations, with the following separate key assumptions incorporated into the MVE simulation:

the present value of nonmaturity deposits are estimated using remaining lives, which are based on a combination of Northern Trust's actual historical runoff patterns and management judgment — some balances are assumed to be core and have long lives while other balances are assumed to be temporary and have comparatively shorter lives; and the present values of most noninterest-related balances (such as receivables, equipment, and payables) are the same as their book values.

The following table shows the estimated impact on MVE of 100 and 200 basis point shocks up from current market implied forward rates. Given the low level of interest rates and assumed interest rate floors as rates approach zero, the simulation of MVE for rates 100 or 200 basis points lower would not provide meaningful results.

Table 27: Market Value of Equity Sensitivity as of June 30, 2017

(\$ In Millions)	Increase/(Decrease) Estimated Impact on Market Value of Equity
Increase in Interest Rates Above Market Implied Forward Rates	
100 Basis Points	\$ 298
200 Basis Points	323

The MVE simulations do not incorporate any management actions that may be used to mitigate negative consequences of actual interest rate movements. For that reason and others, they do not reflect the likely actual results but serve as conservative estimates of interest rate risk. MVE sensitivity is not comparable to actual results disclosed elsewhere or directly predictive of future values of other measures provided.

Foreign Currency Value-At-Risk (VaR) — Northern Trust measures daily the risk of loss associated with all non-U.S. currency positions using a VaR model and applying the historical simulation methodology. This statistical model provides estimates, based on a variety of high confidence levels, of the potential loss in value that might be incurred if an adverse shift in non-U.S. currency exchange rates were to occur over a small number of days. The model incorporates foreign currency and interest rate volatilities and correlations in price movements among the currencies. VaR is computed for each trading desk and for the global portfolio.

Northern Trust monitors several variations of the foreign exchange VaR measures to meet specific regulatory and internal management needs. Variations include different methodologies (historical, variance-covariance and Monte Carlo), equally weighted and exponentially weighted volatilities, horizons of one day and ten days, confidence levels ranging from 95% to 99.95% and look-back periods of one year and four years. Those alternative measures provide management an array of corroborating metrics and alternative perspectives on Northern Trust's market risks.



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## MARKET RISK MANAGEMENT (continued)

The table below presents the levels of total regulatory VaR and its subcomponents for global foreign currency in the years indicated below, based on the historical simulation methodology, a 99% confidence level, a one-day horizon and equally weighted volatility. The total VaR for foreign currency is typically less than the sum of its two components due to diversification benefits derived from the two subcomponents.

Table 28: Foreign Currency Value-At-Risk

(\$ In Millions)	Total VaR (Spot and Forward)		Foreign Exchange Spot VaR		Foreign Exchange Forward VaR	
	June 30, 2017	March 31, 2017	June 30, 2017	March 31, 2017	June 30, 2017	March 31, 2017
	High	\$ 1.2	\$ 1.6	\$ 0.4	\$ 1.6	\$1.2
Low	0.3	0.2	—	—	0.3	0.2
Average	0.8	0.5	0.1	0.1	0.7	0.5
Quarter-End	0.5	1.1	—	0.3	0.5	1.1

## RECONCILIATION OF CERTAIN REPORTED ITEMS TO FULLY TAXABLE EQUIVALENTS

The tables below present reconciliations of interest income, net interest income, net interest margin, and revenue prepared in accordance with GAAP to such measures on an FTE basis, which are non-GAAP financial measures. Management believes this presentation provides a clearer indication of these financial measures for comparative purposes. When adjusted to an FTE basis, yields on taxable, nontaxable and partially taxable assets are comparable; however, the adjustment to an FTE basis has no impact on net income.

Table 29: Reconciliation of Reported Revenue and Net Interest Income to Fully Taxable Equivalent

(\$ In Millions)	Three Months Ended						
	June 30, 2017			June 30, 2016			
	Reported	FTE Adj.	FTE	Reported	FTE Adj.	FTE	
Interest Income	\$417.2	\$ 8.9	\$426.1	\$344.7	\$ 6.9	\$351.6	
Interest Expense	75.7	—	75.7	45.0	—	45.0	
Net Interest Income	\$341.5	\$ 8.9	\$350.4	\$299.7	\$ 6.9	\$306.6	
Net Interest Margin	1.25	%	1.28	%	1.13	%	1.16 %
Revenue	\$1,321.2	\$ 8.9	\$1,330.1	1,316.7	6.9	1,323.6	

(\$ In Millions)	Six Months Ended						
	June 30, 2017			June 30, 2016			
	Reported	FTE Adj.	FTE	Reported	FTE Adj.	FTE	
Interest Income	\$827.5	\$ 17.8	\$845.3	\$696.7	\$ 13.1	\$709.8	
Interest Expense	132.5	—	132.5	89.2	—	89.2	
Net Interest Income	\$695.0	\$ 17.8	\$712.8	\$607.5	\$ 13.1	\$620.6	
Net Interest Margin	1.28	%	1.31	%	1.16	%	1.18 %
Revenue	\$2,605.6	\$ 17.8	\$2,623.4	\$2,506.7	\$ 13.1	\$2,519.8	

## RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASU 2014-09). ASU 2014-09 is a converged standard between the FASB and the International Accounting Standards Board (IASB) that provides a single comprehensive revenue recognition model for all contracts with customers across transactions and industries. The

primary objective of ASU 2014-09 is revenue recognition that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2017.

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## RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS (continued)

In 2016, Northern Trust focused efforts on its assessment project as well as an extensive contract review, covering services offered in each of its respective locations throughout the world. Northern Trust recognizes the majority of its revenues “over time” under current policy and expects to continue this practice upon adoption of ASU 2014-09. ASU 2014-09 is not expected to require significant changes to revenue-related information technology applications. Northern Trust is currently developing detailed disclosures required by ASU 2014-09. Further, Northern Trust assessed the extent of changes to the control environment and is in the process of designing additional controls around contract inception and initial contract analysis. Northern Trust will continue to evaluate certain aspects of ASU 2014-09 such as transition method and agent vs. principal considerations. ASU 2014-09 is not expected to impact significantly Northern Trust’s consolidated financial condition or results of operations.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01). ASU 2016-01 requires equity investments (except those accounted for under the equity method or those that result in consolidation) to be measured at fair value with changes in fair value recognized in net income unless a policy election is made for investments without readily determinable fair values. Additionally, ASU 2016-01 requires public entities to use the exit price notion when measuring the fair value of financial instruments for measurement purposes and eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. Furthermore, it requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017. Although Northern Trust is currently assessing the impact of ASU 2016-01, it is not expected to impact significantly Northern Trust’s consolidated financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (ASU 2016-02). ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet, with certain specified scope exceptions. Specifically within the lessee model under ASU 2016-02, a lessee is required to recognize in the statement of financial position a liability to make lease payments, known as the lease liability, and a right-of-use asset representing its right to use the underlying asset over the lease term. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, although early adoption is permitted. Northern Trust is currently establishing an overall governance structure and a detailed project plan for its implementation efforts. Further, Northern Trust is completing its inventory of leases within the scope of ASU 2016-02 and continues to assess the impact of adoption of ASU 2016-02.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (ASU 2016-13). ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of financial instruments. The main provisions of ASU 2016-13 include (1) replacing the “incurred loss” approach under current GAAP with an “expected loss” model for instruments measured at amortized cost, (2) requiring entities to record an allowance for available-for-sale debt securities rather than reduce the carrying amount of the investments, as is required by the other-than-temporary-impairment model under current GAAP, and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption is permitted. Northern Trust has established a working group across various functions and is currently developing an overall governance structure and a detailed project plan for its implementation efforts. Further, Northern Trust is assessing differences between the existing incurred loss impairment model and the expected loss impairment model requirements under ASU 2016-13, performing a detailed scoping analysis of its portfolios, and evaluating specific application issues. Northern Trust continues to assess the impact of adoption of ASU 2016-13.

In March 2017, the FASB issued ASU No. 2017-08, “Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Securities” (ASU 2017-08), which amends the amortization period for certain callable debt securities held at a premium and shortens the amortization period for the premium to the earliest call date. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15,

2018, although early adoption is permitted. Northern Trust is currently assessing the impact of adoption of ASU 2017-08.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting” (ASU 2017-09). The main provisions of ASU 2017-09 clarify the types of changes to share-based payment awards that are in scope of modification accounting. ASU 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017, although early adoption is permitted. Although Northern Trust is currently assessing the impact of ASU 2017-09, it is not expected to impact significantly Northern Trust’s consolidated financial condition or results of operations.

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FORWARD-LOOKING STATEMENTS

This report may include statements which constitute “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified typically by words or phrases such as “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project,” “likely,” “plan,” “goal,” “strategy,” and similar expressions or future or conditional verbs such as “may,” “will,” “should,” “would,” and “could.” Forward-looking statements include statements, other than those related to historical facts, that relate to Northern Trust’s financial results and outlook, capital adequacy, dividend policy, accounting estimates and assumptions, credit quality including allowance levels, future pension plan contributions, anticipated tax benefits, anticipated expense levels, spending related to technology and regulatory initiatives, risk management policies, contingent liabilities, strategic initiatives, industry trends, and expectations regarding the impact of recent legislation and accounting pronouncements. These statements are based on Northern Trust’s current beliefs and expectations of future events or future results, and involve risks and uncertainties that are difficult to predict and subject to change. These statements are also based on assumptions about many important factors, including:

- financial market disruptions or economic recession, whether in the United States, Europe, the Middle East, Asia or other regions;
- volatility or changes in financial markets, including debt and equity markets, that impact the value, liquidity, or credit ratings of financial assets in general, or financial assets held in particular investment funds or client portfolios, including those funds, portfolios, and other financial assets with respect to which Northern Trust has taken, or may in the future take, actions to provide asset value stability or additional liquidity;
- the impact of equity markets on fee revenue;
- the downgrade of U.S. government-issued and other securities;
- changes in foreign exchange trading client volumes and volatility in foreign currency exchange rates, changes in the valuation of the U.S. dollar relative to other currencies in which Northern Trust records revenue or accrues expenses, and Northern Trust’s success in assessing and mitigating the risks arising from all such changes and volatility;
- a decline in the value of securities held in Northern Trust’s investment portfolio, particularly asset-backed securities, the liquidity and pricing of which may be negatively impacted by periods of economic turmoil and financial market disruptions;
- Northern Trust’s ability to address operating risks, including cyber-security or data security breach risks, human errors or omissions, pricing or valuation of securities, fraud, systems performance or defects, systems interruptions, and breakdowns in processes or internal controls;
- Northern Trust’s success in responding to and investing in changes and advancements in technology;
- a significant downgrade of any of Northern Trust’s debt ratings;
- the health and soundness of the financial institutions and other counterparties with which Northern Trust conducts business;
- uncertainties inherent in the complex and subjective judgments required to assess credit risk and establish appropriate allowances therefor;
- the pace and extent of continued globalization of investment activity and growth in worldwide financial assets;
- changes in interest rates or in the monetary or other policies of various regulatory authorities or central banks;
- changes in the legal, regulatory and enforcement framework and oversight applicable to financial institutions, including changes that may affect leverage limits and risk-based capital and liquidity requirements, require financial institutions to pay higher assessments, expose financial institutions to certain liabilities of their subsidiary depository institutions, or restrict or increase the regulation of certain activities carried on by financial institutions, including Northern Trust;
- increased costs of compliance and other risks associated with changes in regulation, the current regulatory environment, and areas of increased regulatory emphasis and oversight in the United States and other countries, such as anti-money laundering, anti-bribery, and client privacy;
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failure to satisfy regulatory standards or to obtain regulatory approvals when required, including for the use and distribution of capital;

changes in tax laws, accounting requirements or interpretations and other legislation in the United States or other countries that could affect Northern Trust or its clients;

geopolitical risks and the risks of extraordinary events such as natural disasters, terrorist events and war, and the responses of the United States and other countries to those events;

the referendum held in the United Kingdom in which voters approved a departure from the European Union, commonly referred to as “Brexit,” and any effects thereof on global economic conditions, global financial markets, and our business and results of operations;

changes in the nature and activities of Northern Trust’s competition;

Northern Trust’s success in maintaining existing business and continuing to generate new business in existing and targeted markets and its ability to deploy deposits in a profitable manner consistent with its liquidity requirements;



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FORWARD-LOOKING STATEMENTS

• Northern Trust's ability to address the complex needs of a global client base and manage compliance with legal, tax, regulatory and other requirements;

• Northern Trust's ability to maintain a product mix that achieves acceptable margins;

• Northern Trust's ability to continue to generate investment results that satisfy clients and to develop an array of investment products;

• Northern Trust's success in recruiting and retaining the necessary personnel to support business growth and expansion and maintain sufficient expertise to support increasingly complex products and services;

• Northern Trust's success in controlling expenses and implementing revenue enhancement initiatives;

• uncertainties inherent in Northern Trust's assumptions concerning its pension plan, including discount rates and expected contributions, returns and payouts;

• Northern Trust's success in improving risk management practices and controls and managing risks inherent in its businesses, including credit risk, operational risk, market and liquidity risk, fiduciary risk, compliance risk and strategic risk;

• risks and uncertainties inherent in the litigation and regulatory process, including the possibility that losses may be in excess of Northern Trust's recorded liability and estimated range of possible loss for litigation exposures;

• risks associated with being a holding company, including Northern Trust's dependence on dividends from its principal subsidiary;

• the risk of damage to Northern Trust's reputation which may undermine the confidence of clients, counterparties, rating agencies, and stockholders; and

• other factors identified elsewhere in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016, including those factors described in Item 1A, "Risk Factors," and other filings with the SEC, all of which are available on Northern Trust's website.

Actual results may differ materially from those expressed or implied by the forward-looking statements. The information contained herein is current only as of the date of that information. All forward-looking statements included in this document are based upon information presently available, and Northern Trust assumes no obligation to update its forward-looking statements.

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## Item 1. Consolidated Financial Statements (unaudited)

## CONSOLIDATED BALANCE SHEETS NORTHERN TRUST CORPORATION

(In Millions Except Share Information)	June 30, 2017 (Unaudited)	December 31, 2016
<b>Assets</b>		
Cash and Due from Banks	\$5,694.8	\$5,332.0
Federal Reserve and Other Central Bank Deposits	28,988.2	26,674.2
Interest-Bearing Deposits with Banks	4,916.2	4,800.6
Federal Funds Sold and Securities Purchased under Agreements to Resell	2,097.0	1,974.3
<b>Securities</b>		
Available for Sale	34,167.8	35,579.8
Held to Maturity (Fair value of \$9,225.6 and \$8,905.1)	9,247.9	8,921.1
Trading Account	0.6	0.3
Total Securities	43,416.3	44,501.2
<b>Loans and Leases</b>		
Commercial	15,427.6	15,666.7
Personal	18,071.4	18,155.4
Total Loans and Leases (Net of unearned income of \$37.1 and \$41.2)	33,499.0	33,822.1
Allowance for Credit Losses Assigned to Loans and Leases	(153.8)	(161.0)
Buildings and Equipment	463.3	466.6
Client Security Settlement Receivables	1,707.1	1,043.7
Goodwill	523.1	519.4
Other Assets	4,454.5	4,953.8
Total Assets	\$125,605.7	\$123,926.9
<b>Liabilities</b>		
<b>Deposits</b>		
Demand and Other Noninterest-Bearing	\$19,479.8	\$22,190.4
Savings, Money Market and Other Interest-Bearing	15,210.4	16,509.0
Savings Certificates and Other Time	1,292.9	1,331.7
Non U.S. Offices — Noninterest-Bearing	9,608.8	7,972.5
— Interest-Bearing	58,720.2	53,648.1
Total Deposits	104,312.1	101,651.7
Federal Funds Purchased	158.7	204.8
Securities Sold Under Agreements to Repurchase	463.6	473.7
Other Borrowings	4,052.0	5,109.5
Senior Notes	1,496.9	1,496.6
Long-Term Debt	1,671.7	1,330.9
Floating Rate Capital Debt	277.5	277.4
Other Liabilities	3,105.3	3,611.9
Total Liabilities	115,537.8	114,156.5
<b>Stockholders' Equity</b>		
Preferred Stock, No Par Value; Authorized 10,000,000 shares:		
Series C, outstanding shares of 16,000	388.5	388.5
Series D, outstanding shares of 5,000	493.5	493.5
Common Stock, \$1.66 2/3 Par Value; Authorized 560,000,000 shares;		
Outstanding shares of 228,485,957 and 228,605,485	408.6	408.6
Additional Paid-In Capital	1,027.0	1,035.8

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Retained Earnings	9,247.5	8,908.4
Accumulated Other Comprehensive Loss	(338.9 )	(370.0 )
Treasury Stock (16,685,567 and 16,566,039 shares, at cost)	(1,158.3 )	(1,094.4 )
Total Stockholders' Equity	10,067.9	9,770.4
Total Liabilities and Stockholders' Equity	\$125,605.7	\$123,926.9

See accompanying notes to the consolidated financial statements.

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Table of ContentsCONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

## NORTHERN TRUST CORPORATION

(In Millions Except Share Information)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Noninterest Income				
Trust, Investment and Other Servicing Fees	\$848.2	\$ 777.2	\$1,656.4	\$ 1,525.4
Foreign Exchange Trading Income	49.9	64.4	98.0	124.9
Treasury Management Fees	14.9	16.0	29.6	32.2
Security Commissions and Trading Income	24.1	20.6	44.6	39.5
Other Operating Income	43.0	141.2	82.7	179.3
Investment Security Gains (Losses), net (Note)	(0.4 )	(2.4 )	(0.7 )	(2.1 )
Total Noninterest Income	979.7	1,017.0	1,910.6	1,899.2
Net Interest Income				
Interest Income	417.2	344.7	827.5	696.7
Interest Expense	75.7	45.0	132.5	89.2
Net Interest Income	341.5	299.7	695.0	607.5
Provision for Credit Losses	(7.0 )	(3.0 )	(8.0 )	(1.0 )
Net Interest Income after Provision for Credit Losses	348.5	302.7	703.0	608.5
Noninterest Expense				
Compensation	432.5	389.5	858.3	768.3
Employee Benefits	75.6	72.2	153.4	142.8
Outside Services	167.0	159.0	320.1	308.9
Equipment and Software	133.7	118.0	261.0	232.2
Occupancy	46.3	45.3	91.7	86.2
Other Operating Expense	82.3	141.0	147.4	215.4
Total Noninterest Expense	937.4	925.0	1,831.9	1,753.8
Income before Income Taxes	390.8	394.7	781.7	753.9
Provision for Income Taxes	122.9	131.7	237.7	245.5
Net Income	\$267.9	\$ 263.0	\$544.0	\$ 508.4
Preferred Stock Dividends	5.9	5.8	26.6	11.7
Net Income Applicable to Common Stock	\$262.0	\$ 257.2	\$517.4	\$ 496.7
Per Common Share				
Net Income — Basic	\$1.12	\$ 1.11	\$2.22	\$ 2.14
— Diluted	1.12	1.10	2.21	2.13
Average Number of Common Shares Outstanding				
— Basic	229,196,527	227,535,701	229,128,414	228,077,395
— Diluted	230,637,829	229,279,540	230,634,368	229,538,743
Note: Changes in Other-Than-Temporary-Impairment (OTTI) Losses	\$—	\$ (2.4 )	\$ (0.1 )	\$ (2.4 )
Other Security Gains (Losses), net	(0.4 )	—	(0.6 )	0.3
Investment Security Gains (Losses), net	\$ (0.4 )	\$ (2.4 )	\$ (0.7 )	\$ (2.1 )

CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME (UNAUDITED)NORTHERN TRUST  
CORPORATION

Three Months    Six Months  
Ended June 30,    Ended June 30,

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(In Millions)	2017	2016	2017	2016
Net Income	\$267.9	\$263.0	\$544.0	\$508.4
Other Comprehensive Income (Loss) (Net of Tax and Reclassifications)				
Net Unrealized Gains on Securities Available for Sale	1.6	33.5	20.9	108.2
Net Unrealized (Losses) Gains on Cash Flow Hedges	2.3	0.5	(3.0 )	6.6
Foreign Currency Translation Adjustments	4.9	6.3	6.9	10.2
Pension and Other Postretirement Benefit Adjustments	4.3	4.0	6.3	8.1
Other Comprehensive Income	13.1	44.3	31.1	133.1
Comprehensive Income	\$281.0	\$307.3	\$575.1	\$641.5

See accompanying notes to the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)	NORTHERN TRUST CORPORATION	
(In Millions)	Six Months Ended June 30,	
	2017	2016
Preferred Stock		
Series C, Balance at January 1 and June 30	\$388.5	\$388.5
Series D, Balance at January 1 and June 30	\$493.5	\$—
Balance at June 30	882.0	388.5
Common Stock		
Balance at January 1 and June 30	408.6	408.6
Additional Paid-in Capital		
Balance at January 1	1,035.8	1,072.2
Treasury Stock Transactions — Stock Options and Awards	(93.6 )	(75.4 )
Stock Options and Awards — Amortization	84.8	46.6
Stock Options and Awards — Tax Benefit	—	(9.1 )
Balance at June 30	1,027.0	1,034.3
Retained Earnings		
Balance at January 1	8,908.4	8,242.8
Net Income	544.0	508.4
Dividends Declared — Common Stock	(178.3 )	(167.3 )
Dividends Declared — Preferred Stock	(26.6 )	(11.7 )
Balance at June 30	9,247.5	8,572.2
Accumulated Other Comprehensive Income (Loss)		
Balance at January 1	(370.0 )	(372.7 )
Net Unrealized Gains on Securities Available for Sale	20.9	108.2
Net Unrealized Gains (Losses) on Cash Flow Hedges	(3.0 )	6.6
Foreign Currency Translation Adjustments	6.9	10.2
Pension and Other Postretirement Benefit Adjustments	6.3	8.1
Balance at June 30	(338.9 )	(239.6 )
Treasury Stock		
Balance at January 1	(1,094.4 )	(1,033.6 )
Stock Options and Awards	163.8	102.2
Stock Purchased	(227.7 )	(281.1 )
Balance at June 30	(1,158.3 )	(1,212.5 )
Total Stockholders' Equity at June 30	\$10,067.9	\$8,951.5

See accompanying notes to the consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) NORTHERN TRUST CORPORATION

	Six Months Ended	
(In Millions)	June 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net Income	\$544.0	\$508.4
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Investment Security Losses (Gains), net	0.7	2.1
Amortization and Accretion of Securities and Unearned Income, net	53.0	37.2
Provision for Credit Losses	(8.0)	(1.0)
Depreciation on Buildings and Equipment	47.0	44.8
Amortization of Computer Software	154.7	135.8
Amortization of Intangibles	4.7	4.3
Pension Plan Contributions	(11.5)	(9.1)
Change in Receivables	(71.4)	(41.5)
Change in Interest Payable	8.3	(0.7)
Change in Collateral With Derivative Counterparties, net	477.0	(1,067.1)
Other Operating Activities, net	(885.9)	(120.4)
Net Cash Provided by (Used in) Operating Activities	312.6	(507.2)
Cash Flows from Investing Activities:		
Net Change in Federal Funds Sold and Securities Purchased under Agreements to Resell	(106.3)	(249.9)
Change in Interest-Bearing Deposits with Banks	116.1	(56.1)
Net Change in Federal Reserve and Other Central Bank Deposits	(1,804.9)	101.4
Purchases of Securities — Held to Maturity	(4,724.2)	(2,576.5)
Proceeds from Maturity and Redemption of Securities — Held to Maturity	4,857.7	1,235.1
Purchases of Securities — Available for Sale	(4,388.5)	(6,554.3)
Proceeds from Sale, Maturity and Redemption of Securities — Available for Sale	5,819.9	4,432.3
Change in Loans and Leases	531.8	(1,373.3)
Purchases of Buildings and Equipment	(40.1)	(32.0)
Purchases and Development of Computer Software	(179.3)	(153.8)
Change in Client Security Settlement Receivables	(662.7)	(56.0)
Acquisition of a Subsidiary, Net of Cash Received	—	(16.9)
Other Investing Activities, net	282.5	369.6
Net Cash Used in Investing Activities	(298.0)	(4,930.4)
Cash Flows from Financing Activities:		
Change in Deposits	1,313.8	2,596.2
Change in Federal Funds Purchased	(46.1)	(45.5)
Change in Securities Sold under Agreements to Repurchase	(10.0)	18.9
Change in Short-Term Other Borrowings	(1,060.2)	1,996.2
Proceeds from Senior Notes and Long-Term Debt	350.0	—
Repayments of Senior Notes and Long-Term Debt	(5.3)	(2.8)
Treasury Stock Purchased	(227.7)	(281.1)
Net Proceeds from Stock Options	70.3	26.7
Cash Dividends Paid on Common Stock	(174.2)	(165.1)
Cash Dividends Paid on Preferred Stock	(26.6)	(11.7)
Other Financing Activities, net	0.1	(8.9)

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Net Cash Provided by Financing Activities	184.1	4,122.9
Effect of Foreign Currency Exchange Rates on Cash	164.1	208.3
Increase (Decrease) in Cash and Due from Banks	362.8	(1,106.4 )
Cash and Due from Banks at Beginning of Year	5,332.0	6,418.5
Cash and Due from Banks at End of Period	\$5,694.8	\$5,312.1
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$124.0	\$89.7
Income Taxes Paid	312.2	413.4
Transfers from Loans to OREO	5.8	10.2

See accompanying notes to the consolidated financial statements.

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## Notes to Consolidated Financial Statements (unaudited)

## Note 1 – Basis of Presentation

The consolidated financial statements include the accounts of Northern Trust Corporation (the Corporation) and its wholly-owned subsidiary, The Northern Trust Company (the Bank), and various other wholly-owned subsidiaries of the Corporation and the Bank. Throughout the notes, the term “Northern Trust” refers to the Corporation and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements, as of and for the periods ended June 30, 2017 and 2016, have not been audited by the Corporation’s independent registered public accounting firm. In the opinion of management, all accounting entries and adjustments, including normal recurring accruals, necessary for a fair presentation of the financial position and the results of operations for the interim periods have been made. The accounting and financial reporting policies of Northern Trust conform to U.S. generally accepted accounting principles (GAAP) and reporting practices prescribed by the banking industry. The consolidated statements of income include results of acquired subsidiaries from the dates of acquisition. Certain amounts in prior periods have been reclassified to conform with the current year’s presentation. For a description of Northern Trust’s significant accounting policies, refer to Note 1 of the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2016.

Adoption of ASU No. 2016-09. The Corporation adopted ASU No. 2016-09 on July 1, 2016 with an effective date of January 1, 2016, which resulted in reclassifications of \$2.3 million and \$5.9 million from additional paid-in capital to provision for income taxes, representing excess tax benefits previously recognized in additional paid-in-capital during the three and six months ended June 30, 2016, respectively.

Adoption of the standard impacted the Corporation’s previously reported results as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2016		June 30, 2016	
(\$ In Millions except per share data)	As Reported	As Adjusted	As Reported	As Adjusted
	Provision for Income Taxes	\$134.0	\$131.7	\$251.4
Net Income	260.7	263.0	502.5	508.4
Earnings Allocated to Participating Securities	4.7	4.8	8.8	8.9
Net Income Applicable to Common Stock	254.9	257.2	490.8	496.7
Effective Tax Rate	33.9 %	33.4 %	33.3 %	32.6 %
Basic Earnings per Share	\$1.10	\$1.11	\$2.11	\$2.14
Diluted Earnings per Share	1.09	1.10	2.10	2.13
Diluted Weighted Average Shares Outstanding (000s)	229,197	229,280	229,588	229,539
			As of June 30, 2016	
			As Reported	As Adjusted
Additional Paid-In Capital			\$1,040.2	\$1,034.3
Retained Earnings			8,566.3	8,572.2

Definitive Agreement. On February 19, 2017, the Corporation entered into a definitive agreement with UBS AG to acquire UBS Asset Management’s fund administration servicing businesses in Luxembourg and Switzerland for an initial purchase price of approximately \$175 million in cash, subject to adjustment. The transaction is expected to close in the second half of 2017, subject to applicable regulatory and fund board approvals and other customary closing conditions.

## Note 2 – Recent Accounting Pronouncements

On January 1, 2017, the Corporation adopted ASU 2016-05, “Derivatives and Hedging (Topic 815): Effects of Derivative Contract Novations on Existing Hedge Accounting Relationships (a consensus of the Emerging Issues Task Force)” (ASU 2016-05). ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815, does not, in and of itself, require dedesignation of that hedging relationship provided all other hedge accounting criteria continue to be met. Upon adoption of ASU 2016-05, the Corporation did not dedesignate any hedging relationships due to change in counterparty and therefore there was no impact to its consolidated financial condition or results of operations.

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## Notes to Consolidated Financial Statements (unaudited) (continued)

On January 1, 2017, the Corporation adopted ASU 2016-06, “Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments (a consensus of the Emerging Issues Task Force)” (ASU 2016-06). The amendments in ASU 2016-06 clarify what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. The Corporation currently applies the approach for analyzing potential embedded derivative instruments in debt instruments detailed in ASU 2016-06 and therefore upon adoption there was no impact to its consolidated financial condition or results of operations.

On January 1, 2017, the Corporation adopted ASU 2016-07, “Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting” (ASU 2016-07), which requires that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Upon adoption of ASU 2016-07, the Corporation did not hold an interest in an investee that subsequently qualified for the use of the equity method and therefore there was no impact to the Corporation’s consolidated financial condition or results of operations.

On January 1, 2017, the Corporation adopted ASU 2016-17, “Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control” (ASU 2016-17). Under ASU 2016-17, a single decision maker evaluating whether it is the primary beneficiary of a variable interest entity will consider its indirect interests held by related parties that are under common control on a proportionate basis. Upon adoption of ASU 2016-17, there was no impact to the Corporation’s consolidated financial condition or results of operations.

## Note 3 – Fair Value Measurements

**Fair Value Hierarchy.** The following describes the hierarchy of valuation inputs (Levels 1, 2, and 3) used to measure fair value and the primary valuation methodologies used by Northern Trust for financial instruments measured at fair value on a recurring basis. Observable inputs reflect market data obtained from sources independent of the reporting entity; unobservable inputs reflect the entity’s own assumptions about how market participants would value an asset or liability based on the best information available. GAAP requires an entity measuring fair value to maximize the use of observable inputs and minimize the use of unobservable inputs and establishes a fair value hierarchy of inputs. Financial instruments are categorized within the hierarchy based on the lowest level input that is significant to their valuation. Northern Trust’s policy is to recognize transfers into and transfers out of fair value levels as of the end of the reporting period in which the transfer occurred. No transfers between fair value levels occurred during the six months ended June 30, 2017 or the year ended December 31, 2016.

Level 1 — Quoted, active market prices for identical assets or liabilities.

Northern Trust’s Level 1 assets are comprised of available for sale investments in U.S. treasury securities.

Level 2 — Observable inputs other than Level 1 prices, such as quoted active market prices for similar assets or liabilities, quoted prices for identical or similar assets in inactive markets, and model-derived valuations in which all significant inputs are observable in active markets.

Northern Trust’s Level 2 assets include available for sale and trading account securities, the fair values of which are determined predominantly by external pricing vendors. Prices received from vendors are compared to other vendor and third-party prices. If a security price obtained from a pricing vendor is determined to exceed pre-determined tolerance levels that are assigned based on an asset type’s characteristics, the exception is researched and, if the price is not able to be validated, an alternate pricing vendor is utilized, consistent with Northern Trust’s pricing source hierarchy. As of June 30, 2017, Northern Trust’s available for sale securities portfolio included 1,417 Level 2 securities with an aggregate market value of \$28.1 billion. All 1,417 securities were valued by external pricing vendors. As of December 31, 2016, Northern Trust’s available for sale securities portfolio included 1,409 Level 2 securities with an aggregate market value of \$28.1 billion. All 1,409 securities were valued by external pricing vendors. Trading account securities, which totaled \$0.6 million and \$0.3 million as of June 30, 2017 and December 31, 2016, respectively, were all valued using external pricing vendors.

Level 2 assets and liabilities also include derivative contracts which are valued internally using widely accepted income-based models that incorporate inputs readily observable in actively quoted markets and reflect the contractual terms of the contracts. Observable inputs include foreign exchange rates and interest rates for foreign exchange contracts; interest rates for interest rate swap contracts and forward contracts; and interest rates and volatility inputs for interest rate option contracts. Northern Trust evaluates the impact of counterparty credit risk and its own credit risk on the valuation of its derivative instruments. Factors

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## Notes to Consolidated Financial Statements (unaudited) (continued)

considered include the likelihood of default by Northern Trust and its counterparties, the remaining maturities of the instruments, net exposures after giving effect to master netting arrangements or similar agreements, available collateral, and other credit enhancements in determining the appropriate fair value of derivative instruments. The resulting valuation adjustments have not been considered material.

Level 3 — Valuation techniques in which one or more significant inputs are unobservable in the marketplace.

Northern Trust's Level 3 assets consist of auction rate securities purchased in 2008 from Northern Trust clients. To estimate the fair value of auction rate securities, Northern Trust uses external pricing vendors that incorporate transaction details and market-based inputs such as past auction results, trades and bids. The significant unobservable inputs used in the fair value measurement are the prices of the securities supported by little market activity and for which trading is limited.

Northern Trust's Level 3 liabilities consist of swaps that Northern Trust entered into with the purchaser of 1.1 million and 1.0 million shares of Visa Inc. Class B common stock (Visa Class B common shares) previously held by Northern Trust and sold in June 2016 and 2015, respectively. Pursuant to the swaps, Northern Trust retains the risks associated with the ultimate conversion of the Visa Class B common shares into shares of Visa Inc. Class A common stock (Visa Class A common shares), such that the counterparty will be compensated for any dilutive adjustments to the conversion ratio and Northern Trust will be compensated for any anti-dilutive adjustments to the ratio. The swaps also require periodic payments from Northern Trust to the counterparty calculated by reference to the market price of Visa Class A common shares and a fixed rate of interest. The fair value of the swaps is determined using a discounted cash flow methodology. The significant unobservable inputs used in the fair value measurement are Northern Trust's own assumptions about estimated changes in the conversion rate of the Visa Class B common shares into Visa Class A common shares, the date on which such conversion is expected to occur and the estimated growth rate of the Visa Class A common share price. See "Visa Class B Common Shares" under Note 19 — "Contingent Liabilities" for further information.

Northern Trust believes its valuation methods for its assets and liabilities carried at fair value are appropriate; however, the use of different methodologies or assumptions, particularly as applied to Level 3 assets and liabilities, could have a material effect on the computation of their estimated fair values.

The following presents the fair values of, and the valuation techniques, significant unobservable inputs, and quantitative information used to develop significant unobservable inputs for, Northern Trust's Level 3 assets and liabilities as of June 30, 2017 and December 31, 2016.

Table 30: Level 3 Significant Unobservable Inputs

Financial Instrument	June 30, 2017			
	Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs
Auction Rate Securities	\$4.1 million	Comparables	Price	\$87 <del>99</del>
	\$25.9 million	Discounted Cash Flow	Visa Class A Appreciation	7.0 % <del>11.0%</del>
Swaps Related to Sale of Certain Visa Class B Common Shares			Conversion Rate	1.63x <del>1.65x</del>
			Expected Duration	1.5 <del>4.0</del> years
Financial Instrument	December 31, 2016			
	Fair Value	Valuation Technique	Unobservable Inputs	Range of Inputs
Auction Rate Securities	\$4.7 million	Comparables	Price	\$84 <del>99</del>
	\$25.2 million	Discounted Cash Flow	Visa Class A Appreciation	7.0 % <del>11.0%</del>
Swap Related to Sale of Certain Visa Class B Common Shares			Conversion Rate	1.63x <del>1.65x</del>
			Expected Duration	1.5 <del>4.5</del> years



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Notes to Consolidated Financial Statements (unaudited) (continued)

The following tables present assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016, segregated by fair value hierarchy level.

Table 31: Recurring Basis Hierarchy Leveling

(In Millions)	Level 1	Level 2	Level 3	Netting	Assets/Liabilities at Fair Value
June 30, 2017					
Securities					
Available for Sale					
U.S. Government	\$6,044.8	\$—	\$—	\$—	\$ 6,044.8
Obligations of States and Political Subdivisions	—	833.2	—	—	833.2
Government Sponsored Agency	—	17,785.0	—	—	17,785.0
Non-U.S. Government	—	138.6	—	—	138.6
Corporate Debt	—	3,310.0	—	—	3,310.0
Covered Bonds	—	835.6	—	—	835.6
Sub-Sovereign, Supranational and Non-U.S. Agency Bonds	—	1,902.5	—	—	1,902.5
Other Asset-Backed	—	2,832.6	—	—	2,832.6
Auction Rate	—	—	4.1	—	4.1
Commercial Mortgage-Backed	—	443.4	—	—	443.4
Other	—	38.0	—	—	38.0
Total Available for Sale	6,044.8	28,118.9	4.1	—	34,167.8
Trading Account	—	0.6	—	—	0.6
Total Available for Sale and Trading Securities	6,044.8	28,119.5	4.1	—	34,168.4
Other Assets					
Derivative Assets					
Foreign Exchange Contracts	—	3,074.5	—	—	3,074.5
Interest Rate Contracts	—	122.5	—	—	122.5
Total Derivative Assets	—	3,197.0	—	(2,131.7 )	1,065.3
Other Liabilities					
Derivative Liabilities					
Foreign Exchange Contracts	—	3,105.0	—	—	3,105.0
Interest Rate Contracts	—	81.7	—	—	81.7
Other Financial Derivatives <sup>(1)</sup>	—	—	25.9	—	25.9
Total Derivative Liabilities	\$—	\$3,186.7	\$ 25.9	\$(1,910.2)	\$ 1,302.4

Note: Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting arrangements or similar agreements exist between Northern Trust and the counterparty. As of June 30, 2017, derivative assets and liabilities shown above also include reductions of \$583.8 million and \$362.3 million, respectively, as a result of cash collateral received from and deposited with derivative counterparties.

<sup>(1)</sup> This line consists of swaps related to the sale of certain Visa Class B common shares.

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Notes to Consolidated Financial Statements (unaudited) (continued)

(In Millions)	Level 1	Level 2	Level 3	Netting	Assets/Liabilities at Fair Value
December 31, 2016					
Securities					
Available for Sale					
U.S. Government	\$7,522.6	\$—	\$—	\$—	\$ 7,522.6
Obligations of States and Political Subdivisions	—	885.2	—	—	885.2
Government Sponsored Agency	—	17,892.8	—	—	17,892.8
Non-U.S. Government	—	417.9	—	—	417.9
Corporate Debt	—	3,765.2	—	—	3,765.2
Covered Bonds	—	1,143.9	—	—	1,143.9
Sub-Sovereign, Supranational and Non-U.S. Agency Bonds	—	1,340.7	—	—	1,340.7
Other Asset-Backed	—	2,085.1	—	—	2,085.1
Auction Rate	—	—	4.7	—	4.7
Commercial Mortgage-Backed	—	471.6	—	—	471.6
Other	—	50.1	—	—	50.1
Total Available for Sale	7,522.6	28,052.5	4.7	—	35,579.8
Trading Account	—	0.3	—	—	0.3
Total Available for Sale and Trading Securities	7,522.6	28,052.8	4.7	—	35,580.1
Other Assets					
Derivative Assets					
Foreign Exchange Contracts	—	3,609.6	—	—	3,609.6
Interest Rate Contracts	—	247.2	—	—	247.2
Total Derivative Assets	—	3,856.8	—	(2,170.4 )	1,686.4
Other Liabilities					
Derivative Liabilities					
Foreign Exchange Contracts	—	3,242.9	—	—	3,242.9
Interest Rate Contracts	—	108.0	—	—	108.0
Other Financial Derivatives <sup>(1)</sup>	—	—	25.2	—	25.2
Total Derivative Liabilities	\$—	\$3,350.9	\$ 25.2	\$(2,431.2)	\$ 944.9

Note: Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting arrangements or similar agreements exist between Northern Trust and the counterparty. As of December 31, 2016, derivative assets and liabilities shown above also include reductions of \$461.3 million and \$722.1 million, respectively, as a result of cash collateral received from and deposited with derivative counterparties.

<sup>(1)</sup> This line consists of swaps related to the sale of certain Visa Class B common shares.



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## Notes to Consolidated Financial Statements (unaudited) (continued)

The following tables present the changes in Level 3 assets and liabilities for the three and six months ended June 30, 2017 and 2016.

Table 32: Changes in Level 3 Assets

Level 3 Assets (In Millions)	Auction Rate Securities	
	2017	2016
Three Months Ended June 30,		
Fair Value at April 1	\$4.3	\$16.6
Total Gains (Losses):		
Included in Earnings	—	—
Included in Other Comprehensive Income <sup>(1)</sup>	—	(0.2 )
Purchases, Issues, Sales, and Settlements		
Sales	—	(10.0 )
Settlements	(0.2 )	(0.3 )
Fair Value at June 30	\$4.1	\$6.1
Six Months Ended June 30,		
Fair Value at January 1	\$4.7	\$17.1
Total Gains (Losses):		
Included in Earnings	—	—
Included in Other Comprehensive Income <sup>(1)</sup>	—	(0.6 )
Purchases, Issues, Sales, and Settlements		
Sales	—	(10.1 )
Settlements	(0.6 )	(0.3 )
Fair Value at June 30	\$4.1	\$6.1

<sup>(1)</sup> Unrealized gains (losses) are included in net unrealized gains (losses) on securities available for sale in the consolidated statements of comprehensive income.

Table 33: Changes in Level 3 Liabilities

Level 3 Liabilities (In Millions)	Swaps Related to Sale of Certain Visa Class B Common Shares	
	2017	2016
Three Months Ended June 30,		
Fair Value at April 1	\$ 26.4	\$ 9.7
Total (Gains) Losses:		
Included in Earnings <sup>(1)</sup>	1.5	4.9
Purchases, Issues, Sales, and Settlements		
Purchases	—	14.9
Settlements	(2.0 )	(0.8 )
Fair Value at June 30	\$ 25.9	\$ 28.7

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## Notes to Consolidated Financial Statements (unaudited) (continued)

Six Months Ended June 30,	2017	2016
Fair Value at January 1	\$25.2	\$10.8
Total (Gains) Losses:		
Included in Earnings <sup>(1)</sup>	4.4	4.6
Purchases, Issues, Sales, and Settlements		
Purchases	—	14.9
Settlements	(3.7 )	(1.6 )
Fair Value at June 30	\$25.9	\$28.7

<sup>(1)</sup> (Gains) losses are recorded in other operating income in the consolidated statements of income.

During the six months ended June 30, 2017 and 2016, there were no transfers into or out of Level 3 assets or liabilities.

Carrying values of assets and liabilities that are not measured at fair value on a recurring basis may be adjusted to fair value in periods subsequent to their initial recognition, for example, to record an impairment of an asset. GAAP requires entities to disclose separately these subsequent fair value measurements and to classify them under the fair value hierarchy.

Assets measured at fair value on a nonrecurring basis at June 30, 2017 and 2016, all of which were categorized as Level 3 under the fair value hierarchy, were comprised of impaired loans whose values were based on real estate and other available collateral, and of other real estate owned (OREO) properties. Fair values of real-estate loan collateral were estimated using a market approach typically supported by third-party valuations and property-specific fees and taxes, and were subject to adjustments to reflect management's judgment as to realizable value. Other loan collateral, which typically consists of accounts receivable, inventory and equipment, is valued using a market approach adjusted for asset-specific characteristics and in limited instances third-party valuations are used. OREO assets are carried at the lower of cost or fair value less estimated costs to sell, with fair value typically based on third-party appraisals. Collateral-based impaired loans and OREO assets that have been adjusted to fair value totaled \$19.8 million and \$1.0 million, respectively, at June 30, 2017, and \$6.2 million and \$1.7 million, respectively, at June 30, 2016. Assets measured at fair value on a nonrecurring basis reflect management's judgment as to realizable value.

The following table provides the fair value of, and the valuation technique, significant unobservable inputs and quantitative information used to develop the significant unobservable inputs for, Northern Trust's Level 3 assets that were measured at fair value on a nonrecurring basis as of June 30, 2017 and December 31, 2016.

Table 34: Level 3 Nonrecurring Basis Significant Unobservable Inputs

June 30, 2017

Financial Instrument	Fair Value	Valuation Technique	Unobservable Input	Range of Discounts Applied
Loans	\$19.8 million	Market Approach	Discount to reflect realizable value	15.0% - 25.0%
OREO	\$1.0 million	Market Approach	Discount to reflect realizable value	15.0% - 20.0%

December 31, 2016

Financial Instrument	Fair Value	Valuation Technique	Unobservable Input	Range of Discounts Applied
Loans	\$6.7 million	Market Approach	Discount to reflect realizable value	15.0% - 25.0%
OREO	\$0.7 million	Market Approach	Discount to reflect realizable value	15.0% - 20.0%

Fair Value of Financial Instruments. GAAP requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate fair value. It excludes from this requirement nonfinancial assets and liabilities, as well as a wide range of franchise, relationship and intangible values that add value to Northern Trust. Accordingly, the required fair value disclosures provide only a partial estimate of the fair value of Northern Trust. Financial instruments recorded



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Notes to Consolidated Financial Statements (unaudited) (continued)

at fair value in Northern Trust's consolidated balance sheets are discussed above. The following methods and assumptions were used in estimating the fair values of financial instruments that are not carried at fair value.

**Held to Maturity Securities.** The fair values of held to maturity securities, excluding U.S. Treasury securities, were obtained from external pricing vendors, or in limited cases internally, using widely accepted models which are based on an income approach (discounted cash flow) that incorporates current market yield curves. The fair values of U.S. Treasury securities were determined using quoted, active market prices for identical securities.

**Loans (excluding lease receivables).** The fair value of the loan portfolio was estimated using an income approach (discounted cash flow) that incorporates current market rates offered by Northern Trust as of the date of the consolidated financial statements. The fair values of all loans were adjusted to reflect current assessments of loan collectability. Loans held for sale are recorded at the lower of cost or fair value.

**Federal Reserve and Federal Home Loan Bank Stock.** The fair values of Federal Reserve and Federal Home Loan Bank stock are equal to their carrying values which represent redemption value.

**Community Development Investments.** The fair values of these instruments were estimated using an income approach (discounted cash flow) that incorporates current market rates.

**Employee Benefit and Deferred Compensation.** These assets include U.S. Treasury securities and investments in mutual and collective trust funds held to fund certain supplemental employee benefit obligations and deferred compensation plans. Fair values of U.S. Treasury securities were determined using quoted, active market prices for identical securities. The fair values of investments in mutual and collective trust funds were valued at the funds' net asset values based on a market approach.

**Savings Certificates and Other Time Deposits.** The fair values of these instruments were estimated using an income approach (discounted cash flow) that incorporates market interest rates currently offered by Northern Trust for deposits with similar maturities.

**Senior Notes, Subordinated Debt, and Floating Rate Capital Debt.** Fair values were determined using a market approach based on quoted market prices, when available. If quoted market prices were not available, fair values were based on quoted market prices for comparable instruments.

**Federal Home Loan Bank Borrowings.** The fair values of these instruments were estimated using an income approach (discounted cash flow) that incorporates market interest rates available to Northern Trust.

**Loan Commitments.** The fair values of loan commitments represent the estimated costs to terminate or otherwise settle the obligations with a third party adjusted for any related allowance for credit losses.

**Standby Letters of Credit.** The fair values of standby letters of credit are measured as the amount of unamortized fees on these instruments, inclusive of the related allowance for credit losses. Fees are determined by applying basis points to the principal amounts of the letters of credit.

**Financial Instruments Valued at Carrying Value.** Due to their short maturity, the carrying values of certain financial instruments approximated their fair values. These financial instruments include: cash and due from banks; federal funds sold and securities purchased under agreements to resell; interest-bearing deposits with banks; Federal Reserve and other central bank deposits; client security settlement receivables; non-U.S. offices interest-bearing deposits; federal funds purchased; securities sold under agreements to repurchase; and other borrowings (includes term federal funds purchased and other short-term borrowings). The fair values of demand, noninterest-bearing, savings, and money market deposits represent the amounts payable on demand as of the reporting date, although such deposits are typically priced at a premium in banking industry consolidations.

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## Notes to Consolidated Financial Statements (unaudited) (continued)

The following tables summarize the fair values of all financial instruments.

Table 35: Fair Value of Financial Instruments

(In Millions)

	June 30, 2017		Fair Value		
	Book Value	Total Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>					
Cash and Due from Banks	\$5,694.8	\$5,694.8	\$5,694.8	\$—	\$—
Federal Reserve and Other Central Bank Deposits	28,988.2	28,988.2	—	28,988.2	—
Interest-Bearing Deposits with Banks	4,916.2	4,916.2	—	4,916.2	—
Federal Funds Sold and Resell Agreements	2,097.0	2,097.0	—	2,097.0	—
<b>Securities</b>					
Available for Sale (Note)	34,167.8	34,167.8	6,044.8	28,118.4	—
Held to Maturity	9,247.9	9,225.6	18.0	9,207.6	—
Trading Account	0.6	0.6	—	0.6	—
<b>Loans (excluding Leases)</b>					
Held for Investment	33,099.7	33,210.1	—	—	33,210.1
Held for Sale	4.0	4.0	—	—	4.0
Client Security Settlement Receivables	1,707.1	1,707.1	—	1,707.1	—
<b>Other Assets</b>					
Federal Reserve and Federal Home Loan Bank Stock	158.1	158.1	—	158.1	—
Community Development Investments	215.9	223.0	—	223.0	—
Employee Benefit and Deferred Compensation	181.2	179.8	118.1	61.7	—
<b>Liabilities</b>					
<b>Deposits</b>					
Demand, Noninterest-Bearing, Savings, Money Market and Other Interest-Bearing	\$44,299.0	\$44,299.0	\$44,299.0	\$—	\$—
Savings Certificates and Other Time	1,292.9	1,295.7	—	1,295.7	—
Non U.S. Offices Interest-Bearing	58,720.2	58,720.2	—	58,720.2	—
Federal Funds Purchased	158.7	158.7	—	158.7	—
Securities Sold under Agreements to Repurchase	463.6	463.6	—	463.6	—
Other Borrowings	4,052.0	4,054.4	—	4,054.4	—
Senior Notes	1,496.9	1,540.9	—	1,540.9	—
<b>Long Term Debt (excluding Leases)</b>					
Subordinated Debt	1,654.0	1,662.8	—	1,662.8	—
Floating Rate Capital Debt	277.5	260.8	—	260.8	—
<b>Other Liabilities</b>					
Standby Letters of Credit	36.4	36.4	—	—	36.4
Loan Commitments	34.6	34.6	—	—	34.6
<b>Derivative Instruments</b>					
<b>Asset/Liability Management</b>					
<b>Foreign Exchange Contracts</b>					
Assets	\$36.5	\$36.5	\$—	\$36.5	\$—
Liabilities	100.2	100.2	—	100.2	—
<b>Interest Rate Contracts</b>					
Assets	41.2	41.2	—	41.2	—
Liabilities	17.1	17.1	—	17.1	—
<b>Other Financial Derivatives</b>					

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Liabilities <sup>(1)</sup>	25.9	25.9	—	—	25.9
Client-Related and Trading Foreign Exchange Contracts					
Assets	3,038.1	3,038.1	—	3,038.1	—
Liabilities	3,004.8	3,004.8	—	3,004.8	—
Interest Rate Contracts					
Assets	81.2	81.2	—	81.2	—
Liabilities	64.6	64.6	—	64.6	—

Note: Refer to the table located on page 39 for the disaggregation of available for sale securities.

<sup>(1)</sup> This line consists of swaps related to the sale of certain Visa Class B common shares.

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Notes to Consolidated Financial Statements (unaudited) (continued)

(In Millions)	December 31, 2016				
	Book Value	Total Fair Value	Fair Value Level 1	Level 2	Level 3
<b>Assets</b>					
Cash and Due from Banks	\$5,332.0	\$5,332.0	\$5,332.0	\$—	\$—
Federal Reserve and Other Central Bank Deposits	26,674.2	26,674.2	—	26,674.2	—
Interest-Bearing Deposits with Banks	4,800.6	4,800.6	—	4,800.6	—
Federal Funds Sold and Resell Agreements	1,974.3	1,974.3	—	1,974.3	—
<b>Securities</b>					
Available for Sale (Note)	35,579.8	35,579.8	7,522.6	28,052.5	4.7
Held to Maturity	8,921.1	8,905.1	15.0	8,890.1	—
Trading Account	0.3	0.3	—	0.3	—
<b>Loans (excluding Leases)</b>					
Held for Investment	33,354.1	33,471.3	—	—	33,471.3
Held for Sale	13.4	13.4	—	—	13.4
Client Security Settlement Receivables	1,043.7	1,043.7	—	1,043.7	—
<b>Other Assets</b>					
Federal Reserve and Federal Home Loan Bank Stock	203.1	203.1	—	203.1	—
Community Development Investments	218.9	215.5	—	215.5	—
Employee Benefit and Deferred Compensation	166.2	162.5	107.2	55.3	—
<b>Liabilities</b>					
<b>Deposits</b>					
Demand, Noninterest-Bearing, Savings, Money Market and Other Interest-Bearing	\$46,671.9	\$46,671.9	\$46,671.9	\$—	\$—
Savings Certificates and Other Time	1,331.7	1,337.5	—	1,337.5	—
Non U.S. Offices Interest-Bearing	53,648.1	53,648.1	—	53,648.1	—
Federal Funds Purchased	204.8	204.8	—	204.8	—
Securities Sold under Agreements to Repurchase	473.7	473.7	—	473.7	—
Other Borrowings	5,109.5	5,113.4	—	5,113.4	—
Senior Notes	1,496.6	1,535.5	—	1,535.5	—
<b>Long Term Debt (excluding Leases)</b>					
Subordinated Debt	1,307.9	1,316.0	—	1,316.0	—
Floating Rate Capital Debt	277.4	251.0	—	251.0	—
<b>Other Liabilities</b>					
Standby Letters of Credit	37.2	37.2	—	—	37.2
Loan Commitments	41.2	41.2	—	—	41.2
<b>Derivative Instruments</b>					
<b>Asset/Liability Management</b>					
<b>Foreign Exchange Contracts</b>					
Assets	\$335.4	\$335.4	\$—	\$335.4	\$—
Liabilities	21.2	21.2	—	21.2	—
<b>Interest Rate Contracts</b>					
Assets	160.2	160.2	—	160.2	—
Liabilities	22.8	22.8	—	22.8	—
<b>Other Financial Derivatives</b>					
Liabilities <sup>(1)</sup>	25.2	25.2	—	—	25.2
<b>Client-Related and Trading</b>					

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Foreign Exchange Contracts

Assets	3,274.2	3,274.2	—	3,274.2	—
Liabilities	3,221.7	3,221.7	—	3,221.7	—

Interest Rate Contracts

Assets	87.0	87.0	—	87.0	—
Liabilities	85.2	85.2	—	85.2	—

Note: Refer to the table located on page 40 for the disaggregation of available for sale securities.

<sup>(1)</sup> This line consists of swaps related to the sale of certain Visa Class B common shares.



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Notes to Consolidated Financial Statements (unaudited) (continued)

## Note 4 – Securities

The following tables provide the amortized cost and fair values of securities at June 30, 2017 and December 31, 2016.

Table 36: Reconciliation of Amortized Cost to Fair Value of Securities Available for Sale

Securities Available for Sale	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
(In Millions)				
U.S. Government	\$6,032.6	\$23.9	\$11.7	\$6,044.8
Obligations of States and Political Subdivisions	834.4	0.2	1.4	833.2
Government Sponsored Agency	17,796.1	50.5	61.6	17,785.0
Non-U.S. Government	139.8	—	1.2	138.6
Corporate Debt	3,326.3	3.4	19.7	3,310.0
Covered Bonds	837.9	1.0	3.3	835.6
Sub-Sovereign, Supranational and Non-U.S. Agency Bonds	1,901.4	3.9	2.8	1,902.5
Other Asset-Backed	2,829.8	4.5	1.7	2,832.6
Auction Rate	4.4	—	0.3	4.1
Commercial Mortgage-Backed	445.6	—	2.2	443.4
Other	38.0	—	—	38.0
Total	\$34,186.3	\$87.4	\$105.9	\$34,167.8
Securities Available for Sale	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
(In Millions)				
U.S. Government	\$7,514.5	\$22.4	\$14.3	\$7,522.6
Obligations of States and Political Subdivisions	890.8	—	5.6	885.2
Government Sponsored Agency	17,914.1	49.3	70.6	17,892.8
Non-U.S. Government	420.0	—	2.1	417.9
Corporate Debt	3,787.4	2.6	24.8	3,765.2
Covered Bonds	1,148.6	0.8	5.5	1,143.9
Sub-Sovereign, Supranational and Non-U.S. Agency Bonds	1,343.6	0.9	3.8	1,340.7
Other Asset-Backed	2,083.7	2.7	1.3	2,085.1
Auction Rate	5.0	—	0.3	4.7
Commercial Mortgage-Backed	474.1	—	2.5	471.6
Other	50.1	—	—	50.1
Total	\$35,631.9	\$78.7	\$130.8	\$35,579.8

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Notes to Consolidated Financial Statements (unaudited) (continued)

Table 37: Reconciliation of Amortized Cost to Fair Value of Securities Held to Maturity  
 Securities Held to Maturity June 30, 2017

(In Millions)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S Government	\$18.0	\$	—	