NORTHERN TRUST CORP
Form 10-Q
October 28, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2015

OR

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

For the transition period from to

Commission File No. 0-5965

NORTHERN TRUST CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	36-2723087
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
50 South LaSalle Street Chicago, Illinois	60603
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

231,220,304 Shares – $1.66 2/3 Par Value
(Shares of Common Stock Outstanding on September 30, 2015)

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NORTHERN TRUST CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015
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CONSOLIDATED FINANCIAL HIGHLIGHTS
(UNAUDITED)

	Three Months Ended September 30,			Nine Months Ended September 30,		
CONDENSED INCOME STATEMENTS (In Millions)	2015	2014	% Change (*)	2015	2014	% Change (*)
Noninterest Income	$886.6	$829.6	7 %	$2,765.2	$2,459.5	12 %
Net Interest Income	268.9	249.3	8	780.7	741.6	5
Provision for Credit Losses	(10.0)	—	N/M	(24.5)	3.0	N/M
Noninterest Expense	812.3	774.7	5	2,455.8	2,353.7	4
Income before Income Taxes	353.2	304.2	16	1,114.6	844.4	32
Provision for Income Taxes	118.6	99.7	19	380.1	276.6	37
Net Income	$234.6	$204.5	15 %	$734.5	$567.8	29 %
PER COMMON SHARE						
Net Income — Basic	$0.97	$0.85	14 %	$3.03	$2.36	28 %
— Diluted	0.96	0.84	14	3.00	2.34	28
Cash Dividends Declared Per Common Share	0.36	0.33	9	1.05	0.97	8
Book Value — End of Period (EOP)	36.31	34.62	5	36.31	34.62	5
Market Price — EOP	68.16	68.03	—	68.16	68.03	—

SELECTED BALANCE SHEET DATA
(In Millions)

	September 30, 2015	December 31, 2014	% Change (*)
End of Period:			
Assets	$119,995.2	$109,946.5	9 %
Earning Assets	110,565.5	100,889.8	10
Deposits	99,935.9	90,757.0	10
Stockholders' Equity	8,784.5	8,448.9	4

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change (*)	2015	2014	% Change (*)
Average Balances:						
Assets	$109,924.1	$105,244.7	4 %	$109,718.3	$102,955.8	7 %
Earning Assets	100,809.2	96,967.5	4	101,110.5	94,773.8	7
Deposits	91,027.0	85,717.2	6	89,979.2	83,721.6	7
Stockholders' Equity	8,710.5	8,285.5	5	8,597.9	8,054.3	7

CLIENT ASSETS (In Billions)	September 30, 2015	December 31, 2014	% Change (*)
Assets Under Custody	$5,956.4	$5,968.8	— %
Assets Under Management	886.8	934.1	(5)

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SELECTED RATIOS AND METRICS

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	% Change (*)	2015	2014	% Change (*)
Financial Ratios:						
Return on Average Common Equity	10.91 %	10.09 %	8 %	11.68 %	9.52 %	23 %
Return on Average Assets	0.85	0.77	10	0.90	0.74	22
Dividend Payout Ratio	37.5	39.3	(5)	35.0	41.5	(16)
Net Interest Margin (**)	1.08	1.05	3	1.06	1.08	(2)

	September 30, 2015		December 31, 2014	
	Advanced Approach	Standardized Approach (a)	Advanced Approach	Standardized Approach (a)
Capital Ratios:				
Northern Trust Corporation				
Common Equity Tier 1	12.4 %	10.4 %	12.4 %	12.5 %
Tier 1	13.0	11.0	13.2	13.3
Total	14.8	12.8	15.0	15.5
Tier 1 Leverage	7.8	7.8	n/a	7.8
Supplementary Leverage (b)	6.4	n/a	n/a	n/a
The Northern Trust Company				
Common Equity Tier 1	12.0 %	9.9 %	12.0 %	11.8 %
Tier 1	12.0	9.9	12.0	11.8
Total	13.6	11.6	13.8	14.0
Tier 1 Leverage	7.0	7.0	n/a	6.9
Supplementary Leverage (b)	5.7	n/a	n/a	n/a

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

(**) 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 25.

(a) In 2014, Standardized Approach risk-weighted assets were determined by Basel I requirements. Effective with the first quarter of 2015, risk-weighted assets are calculated in accordance with the Basel III Standardized Approach final rules.

(b) Beginning with the first quarter of 2015, advanced approaches banking organizations must calculate and report their supplementary leverage ratio. Effective January 1, 2018, advanced approaches institutions, such as the Corporation, will be subject to a minimum supplementary leverage ratio of 3 percent.

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PART I – FINANCIAL INFORMATION
Items 2. and 3. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures about Market Risk
THIRD QUARTER CONSOLIDATED RESULTS OF OPERATIONS
General
Northern Trust Corporation (Corporation) is a financial holding company that is a leading provider of asset servicing, fund administration, asset management, fiduciary and banking solutions for corporations, institutions, families and individuals worldwide. The Corporation 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 $0.96 in the current quarter, up from $0.84 in the third quarter of 2014. Net income was $234.6 million in the current quarter as compared to $204.5 million in the prior-year quarter. Annualized return on average common equity in the quarter was 10.9% as compared to 10.1% in the prior-year quarter. The annualized return on average assets was 0.8%, relatively unchanged from the prior-year quarter.
Revenue of $1.16 billion was up $76.6 million, or 7%, from $1.08 billion in the prior-year quarter, primarily reflecting higher trust, investment and other servicing fees, foreign exchange trading income and security commissions and trading income. Noninterest income increased $57.0 million, or 7%, to $886.6 million from $829.6 million in the prior-year quarter.
Net interest income increased 8% to $268.9 million in the current quarter as compared to $249.3 million in the prior-year quarter, due to growth in earning assets and a higher net interest margin.
The provision for credit losses was a credit of $10.0 million in the current quarter, reflecting improved credit quality. There was no provision for credit losses recorded in the prior-year quarter.
Noninterest expense totaled $812.3 million, up $37.6 million, or 5%, from $774.7 million in the prior-year quarter, attributable to higher outside services, compensation and equipment and software expenses.

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THIRD QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income

The components of noninterest income are provided below.

Table 1: Noninterest Income

Noninterest Income	Three Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Trust, Investment and Other Servicing Fees	$749.1	$718.2	$30.9	4 %
Foreign Exchange Trading Income	62.9	46.4	16.5	36
Treasury Management Fees	16.1	16.4	(0.3)	(2)
Security Commissions and Trading Income	20.4	14.2	6.2	44
Other Operating Income	38.1	34.1	4.0	12
Investment Security Gains, net	—	0.3	(0.3)	(100)
Total Noninterest Income	$886.6	$829.6	$57.0	7 %

Trust, investment and other servicing fees are based primarily on: the market value of assets held in custody, managed or serviced; the volume of transactions; securities lending volume and spreads; and fees for other services rendered. Certain market value calculations on which fees are based are performed on a monthly or quarterly basis in arrears. For a further discussion of trust, investment and other servicing fees and how they are derived, refer to the “Reporting Segments” section.

The following table presents Northern Trust’s assets under custody by reporting segment.

Table 2: Assets Under Custody

Assets Under Custody ($ In Billions)	September 30, 2015	June 30, 2015	September 30, 2014	Change Q3-15/Q2-15	Change Q3-15/Q3-14
Corporate & Institutional	$5,460.6	$5,652.6	$5,403.1	(3)%	1 %
Wealth Management	495.8	524.4	507.2	(5)	(2)
Total Assets Under Custody	$5,956.4	$6,177.0	$5,910.3	(4)%	1 %

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

Table 3: Allocations of Assets Under Custody

	September 30, 2015			June 30, 2015			September 30, 2014		
Assets Under Custody	C&IS	WM	Total	C&IS	WM	Total	C&IS	WM	Total
Equities	43 %	53 %	44 %	45 %	55 %	46 %	44 %	55 %	45 %
Fixed Income Securities	38	24	37	37	23	35	37	22	36
Cash and Other Assets	19	23	19	18	22	19	19	23	19

The $46.1 billion increase in consolidated assets under custody from $5.9 trillion at September 30, 2014, to $6.0 trillion as of September 30, 2015 primarily reflected increased net new business driven by institutional clients in global funds services.

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

Table 4: Assets Under Management

Assets Under Management ($ In Billions)	September 30, 2015	June 30, 2015	September 30, 2014	Change Q3-15/Q2-15	Change Q3-15/Q3-14
Corporate & Institutional	$661.5	$713.6	$702.9	(7)%	(6)%
Wealth Management	225.3	232.0	220.4	(3)	2
Total Assets Under Management	$886.8	$945.6	$923.3	(6)%	(4)%

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

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THIRD QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income (continued)

Table 5: Assets Under Management by Investment Type

($ In Billions)	September 30, 2015	June 30, 2015	September 30, 2014
Equities	$437.8	$487.7	$477.1
Fixed Income Securities	150.1	167.7	154.2
Cash and Other Assets	176.9	169.9	170.9
Securities Lending Collateral	122.0	120.3	121.1
Total Assets Under Management	$886.8	$945.6	$923.3

The 4% decrease in consolidated assets under management from $923.3 billion at September 30, 2014, to $886.8 billion as of September 30, 2015 primarily reflected lower equity assets and fixed income securities, partially offset by increases in cash and securities lending collateral.

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

Table 6: Allocations of Assets Under Management

	September 30, 2015			June 30, 2015			September 30, 2014		
Assets Under Management	C&IS	WM	Total	C&IS	WM	Total	C&IS	WM	Total
Equities	51 %	44 %	49 %	53 %	47 %	51 %	53 %	48 %	52 %
Fixed Income Securities	13	29	17	14	28	18	13	28	17
Securities Lending Collateral	18	—	14	17	—	13	17	—	13
Cash and Other Assets	18	27	20	16	25	18	17	24	18

Changes in assets under custody and under management are in comparison to the twelve-month decrease in the S&P 500® index of 2.6% and decline in the MSCI EAFE® index (USD) of 10.9%.

Foreign exchange trading income totaled $62.9 million in the current quarter, up $16.5 million, or 36%, compared to $46.4 million in the prior-year quarter. The increase was primarily due to higher currency volatility as compared to the prior-year quarter.

Security commissions and trading income totaled $20.4 million, up $6.2 million, or 44%, compared with $14.2 million in the prior-year quarter. The increase was primarily attributable to higher income from interest rate protection products sold to clients.

Other operating income totaled $38.1 million, up $4.0 million, or 12%, compared to $34.1 million in the prior-year quarter, reflecting increases in various other income categories. The components of other operating income are provided below.

Table 7: Other Operating Income

Other Operating Income	Three Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Loan Service Fees	$14.8	$15.3	$(0.5)	(3)%
Banking Service Fees	11.9	12.3	(0.4)	(3)
Other Income	11.4	6.5	4.9	75
Total Other Operating Income	$38.1	$34.1	$4.0	12 %

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THIRD 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 8: AVERAGE CONSOLIDATED BALANCE SHEETS WITH ANALYSIS OF NET INTEREST INCOME	NORTHERN TRUST CORPORATION Third Quarter					
(INTEREST AND RATE ON A FULLY TAXABLE EQUIVALENT BASIS)	2015			2014		
($ In Millions)	Interest	Average Balance	Rate (4)	Interest	Average Balance	Rate (4)
Average Earning Assets						
Federal Funds Sold and Securities Purchased under Agreements to Resell	$1.3	$1,080.4	0.49 %	$1.0	$923.1	0.44 %
Interest-Bearing Due from and Deposits with Banks (1)	27.0	15,828.1	0.68	30.9	16,288.3	0.75
Federal Reserve Deposits	8.1	12,721.3	0.25	10.4	15,914.3	0.26
Securities						
U.S. Government	14.1	5,034.6	1.11	7.9	3,031.9	1.03
Obligations of States and Political Subdivisions	1.8	103.3	6.80	2.5	148.5	6.74
Government Sponsored Agency	34.9	16,198.2	0.86	34.2	17,385.6	0.78
Other (2)	36.4	16,705.0	0.86	27.5	13,019.4	0.84
Total Securities	87.2	38,041.1	0.91	72.1	33,585.4	0.85
Loans and Leases (3)	188.2	33,138.3	2.25	186.3	30,256.4	2.44
Total Earning Assets	311.8	100,809.2	1.23	300.7	96,967.5	1.23
Allowance for Credit Losses Assigned to Loans and Leases	—	(256.0)	—	—	(273.4)	—
Cash and Due from Banks	—	2,683.5	—	—	2,783.0	—
Buildings and Equipment	—	435.6	—	—	445.6	—
Client Security Settlement Receivables	—	1,031.8	—	—	820.8	—
Goodwill	—	532.4	—	—	541.9	—
Other Assets	—	4,687.6	—	—	3,959.3	—
Total Assets	$—	$109,924.1	— %	$—	$105,244.7	— %
Average Source of Funds						
Deposits						
Savings and Money Market	$2.4	$15,168.4	0.06 %	$2.5	$15,019.0	0.07 %
Savings Certificates and Other Time	2.2	1,487.0	0.57	1.4	1,902.9	0.30
Non-U.S. Offices — Interest-Bearing	13.3	50,107.9	0.11	17.7	48,725.5	0.14
Total Interest-Bearing Deposits	17.9	66,763.3	0.11	21.6	65,647.4	0.13
Short-Term Borrowings	1.1	3,878.5	0.11	1.5	4,860.3	0.12
Senior Notes	11.7	1,497.2	3.10	11.6	1,496.8	3.10
Long-Term Debt	5.5	1,374.3	1.60	9.2	1,636.5	2.23
Floating Rate Capital Debt	0.6	277.3	0.86	0.6	277.2	0.81
Total Interest-Related Funds	36.8	73,790.6	0.20	44.5	73,918.2	0.24
Interest Rate Spread	—	—	1.03	—	—	0.99
Demand and Other Noninterest-Bearing Deposits	—	24,263.7	—	—	20,069.8	—
Other Liabilities	—	3,159.3	—	—	2,971.2	—

Stockholders’ Equity	—	8,710.5	—		—	8,285.5	—	
Total Liabilities and Stockholders’ Equity	$—	$109,924.1	—	%	$—	$105,244.7	—	%
Net Interest Income/Margin (FTE Adjusted)	$275.0	$—	1.08	%	$256.2	$—	1.05	%
Net Interest Income/Margin (Unadjusted)	$268.9	$—	1.06	%	$249.3	$—	1.02	%

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

ANALYSIS OF NET INTEREST INCOME CHANGES
DUE TO VOLUME AND RATE

	Three Months Ended September 30, 2015/2014		
	Change Due To		
(In Millions)	Average Balance	Rate	Total
Earning Assets (FTE)	$11.1	$—	$11.1
Interest-Related Funds	(0.1)	(7.6)	(7.7)
Net Interest Income (FTE)	$11.2	$7.6	$18.8

(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 September 30, 2015 and 2014.
(3) Average balances include nonaccrual loans. Lease financing receivable balances are reduced by deferred income.
(4) 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) 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 37.6% and 37.8% for the three months ended September 30, 2015 and 2014, respectively. Total taxable equivalent interest adjustments amounted to $6.1 million and $6.9 million for the three months ended September 30, 2015 and 2014, respectively.

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 $275.0 million, up $18.8 million, or 7%, compared to $256.2 million in the prior-year quarter. The increase was primarily the result of growth in earning assets and a higher net interest margin. Earning assets for the current quarter averaged $100.8 billion, up $3.8 billion, or 4%, from $97.0 billion in the prior-year quarter, primarily resulting from higher levels of securities and loans. Earning asset growth was funded by a higher level of demand deposits and other noninterest-bearing deposits.

The net interest margin on an FTE basis, increased to 1.08% in the current quarter from 1.05% in the prior-year quarter, primarily reflecting a lower cost of interest-related funds, partially offset by lower yields on certain categories of earning assets.

When adjusted to an FTE basis, yields on taxable, nontaxable, and partially taxable assets are comparable; however, the adjustment to an FTE basis has no impact on net income. A reconciliation of net interest income on a GAAP basis to net interest income on an FTE basis (a non-GAAP financial measure) is provided on page 25.

Federal Reserve deposits averaged $12.7 billion, down $3.2 billion, or 20%, from $15.9 billion in the prior-year quarter. Average securities were $38.0 billion, up $4.5 billion, or 13%, from $33.6 billion in the prior-year quarter and include certain community development investments and Federal Home Loan Bank and Federal Reserve stock of $183.5 million, $125.8 million and $53.1 million, respectively, which are recorded in other assets in the consolidated balance sheet.

Loans and leases averaged $33.1 billion, up $2.9 billion, or 10%, from $30.3 billion in the prior-year quarter, primarily reflecting higher levels of commercial and institutional loans and commercial real estate loans. Private client loans averaged $8.4 billion, up $1.9 billion, or 29%, from $6.5 billion for the prior-year quarter. Commercial and institutional loans averaged $9.2 billion, up $1.2 billion, or 15%, from $8.0 billion for the prior-year quarter. Commercial real estate loans averaged $3.7 billion, up $648.0 million, or 21%, from $3.1 billion for the prior-year quarter.

Northern Trust utilizes a diverse mix of funding sources. Total interest-bearing deposits averaged $66.8 billion, compared to $65.6 billion in the prior-year quarter, an increase of $1.1 billion, or 2%. Other interest-bearing funds averaged $7.0 billion, a decrease of $1.2 billion, from $8.3 billion in the prior-year quarter, attributable to decreased short-term borrowings and long-term debt. The balances within short-term borrowing classifications vary based on funding requirements and strategies, interest rate levels, changes in the volume of lower-cost deposit sources, and the availability of collateral to secure these borrowings. Average net noninterest-related funds utilized to fund earning assets increased $4.0 billion, or 17%, to $27.0 billion from $23.0 billion in the prior-year quarter, primarily resulting from higher levels of demand and other noninterest-bearing deposits.

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THIRD QUARTER CONSOLIDATED RESULTS OF OPERATIONS (continued)

Net Interest Income (continued)

Provision for Credit Losses

The provision for credit losses was a credit of $10.0 million in the current quarter, reflecting improved credit quality. There was no provision for credit losses recorded in the prior-year quarter. Net charge-offs in the current quarter were $9.4 million, resulting from charge-offs of $11.9 million and recoveries of $2.5 million. The prior-year quarter included $5.2 million of net charge-offs, resulting from $8.6 million of charge-offs and $3.4 million of recoveries. Nonperforming assets of $207.5 million decreased 10% from the prior-year quarter. Residential real estate loans and commercial real estate loans accounted for 77% and 13%, respectively, of total nonperforming loans and leases at September 30, 2015. For additional discussion of the provision and allowance for credit losses, refer to the "Asset Quality" section beginning on page 21.

Noninterest Expense

The components of noninterest expense are provided below.

Table 9: Noninterest Expense

Noninterest Expense	Three Months Ended September 30,					
($ In Millions)	2015	2014	Change			
Compensation	$361.6	$348.0	$13.6		4	%
Employee Benefits	69.8	70.6	(0.8	)	(1	)
Outside Services	158.3	142.4	15.9		11	
Equipment and Software	113.6	100.5	13.1		13	
Occupancy	43.7	43.8	(0.1	)	—	
Other Operating Expense	65.3	69.4	(4.1	)	(6	)
Total Noninterest Expense	$812.3	$774.7	$37.6		5	%

Compensation expense, the largest component of noninterest expense, totaled $361.6 million in the current quarter, up $13.6 million, or 4%, from $348.0 million in the prior-year quarter. The increase primarily reflects higher staff levels, base pay adjustments and performance-based compensation, partially offset by the favorable impact of movements in foreign exchange rates. Staff on a full-time equivalent basis at September 30, 2015, totaled approximately 16,000, up 5% from September 30, 2014.

Employee benefit expense totaled $69.8 million in the current quarter, down slightly, from $70.6 million in the prior-year quarter, reflecting lower expense associated with employee medical benefits offset by higher pension expense.

Expense associated with outside services totaled $158.3 million in the current quarter, up $15.9 million, or 11%, from $142.4 million in the prior-year quarter, primarily reflecting higher consulting expense due to regulatory-related spend and increased technical services expense, partially offset by lower third-party advisory and sub-custodian expenses.

Equipment and software expense totaled $113.6 million in the current quarter, up $13.1 million, or 13%, from $100.5 million in the prior-year quarter, reflecting higher software-related costs.

Occupancy expense totaled $43.7 million, relatively unchanged from $43.8 million in the prior-year quarter.

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

Other operating expense totaled $65.3 million in the current quarter, down 6% from $69.4 million in the prior-year quarter, reflecting decreases in various categories. The components of other operating expense are provided below.
Table 10: Other Operating Expense

Other Operating Expense	Three Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Business Promotion	$20.4	$19.1	$1.3	7 %
Staff Related	8.9	10.8	(1.9)	(18)
FDIC Insurance Premiums	6.6	5.8	0.8	14
Other Intangibles Amortization	2.1	4.8	(2.7)	(56)
Other Expenses	27.3	28.9	(1.6)	(6)
Total Other Operating Expense	$65.3	$69.4	$(4.1)	(6)%

Provision for Income Taxes
Income tax expense was $118.6 million in the current quarter, representing an effective tax rate of 33.6%, compared to $99.7 million in the prior-year quarter, representing an effective tax rate of 32.8%.
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 nine- month periods ended September 30, 2015, and 2014. 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 11: Results of Reporting Segments

Three Months Ended September 30,	Corporate & Institutional Services		Wealth Management		Treasury and Other		Total Consolidated	
($ In Millions)	2015	2014	2015	2014	2015	2014	2015	2014
Noninterest Income								
Trust, Investment and Other Servicing Fees	$429.7	$399.9	$319.4	$318.3	$—	$—	$749.1	$718.2
Foreign Exchange Trading Income	60.0	44.4	2.9	2.0	—	—	62.9	46.4
Other Noninterest Income	45.9	42.8	28.3	20.9	0.4	1.3	74.6	65.0
Net Interest Income (FTE)*	108.6	78.4	142.5	131.2	23.9	46.6	275.0	256.2
Revenue*	644.2	565.5	493.1	472.4	24.3	47.9	1,161.6	1,085.8
Provision for Credit Losses	(2.8)	0.9	(7.2)	(0.9)	—	—	(10.0)	—
Noninterest Expense	464.6	429.6	316.3	312.1	31.4	33.0	812.3	774.7
Income before Income Taxes*	182.4	135.0	184.0	161.2	(7.1)	14.9	359.3	311.1
Provision for Income Taxes*	58.3	42.4	69.0	60.7	(2.6)	3.5	124.7	106.6
Net Income	$124.1	$92.6	$115.0	$100.5	$(4.5)	$11.4	$234.6	$204.5
Percentage of Consolidated Net Income	53%	45%	49%	49%	(2)%	6%	100%	100%
	$41,305.7	$59,907.1	$25,274.6	$26,061.8	$43,343.8	$19,275.8	$109,924.1	$105,244.7

Average Assets

* Stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of $6.1 million for 2015 and $6.9 million for 2014.

Nine Months Ended September 30,	Corporate & Institutional Services		Wealth Management		Treasury and Other		Total Consolidated	
($ In Millions)	2015	2014	2015	2014	2015	2014	2015	2014
Noninterest Income								
Trust, Investment and Other Servicing Fees	$1,269.0	$1,174.5	$964.4	$930.1	$—	$—	$2,233.4	$2,104.6
Foreign Exchange Trading Income	199.3	143.2	10.0	6.2	—	—	209.3	149.4
Other Noninterest Income	131.0	134.3	83.9	66.7	107.6	4.5	322.5	205.5
Net Interest Income (FTE)*	297.3	228.8	421.8	398.8	80.3	136.4	799.4	764.0
Revenue*	1,896.6	1,680.8	1,480.1	1,401.8	187.9	140.9	3,564.6	3,223.5
Provision for Credit Losses	(3.0)	4.5	(21.5)	(1.5)	—	—	(24.5)	3.0
Noninterest Expense	1,387.7	1,299.5	960.9	960.3	107.2	93.9	2,455.8	2,353.7
Income before Income Taxes*	511.9	376.8	540.7	443.0	80.7	47.0	1,133.3	866.8
Provision for Income Taxes*	160.9	113.3	203.2	166.9	34.7	18.8	398.8	299.0
Net Income	$351.0	$263.5	$337.5	$276.1	$46.0	$28.2	$734.5	$567.8
Percentage of Consolidated Net Income	48%	46%	46%	49%	6%	5%	100%	100%
Average Assets	$41,461.6	$59,061.3	$24,806.8	$23,613.4	$43,449.9	$20,281.1	$109,718.3	$102,955.8

* Stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of $18.7 million for 2015 and $22.4 million for 2014.

Corporate & Institutional Services

C&IS net income totaled $124.1 million in the current quarter compared to $92.6 million in the prior-year quarter, an increase of $31.5 million, or 34%. Noninterest income was $535.6 million in the current quarter, up $48.5 million, or

10%, from $487.1 million in the prior-year quarter, reflecting higher trust, investment and other servicing fees and foreign exchange trading income. The following table provides a summary of C&IS trust, investment and other servicing fees.

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REPORTING SEGMENTS (continued)
Corporate & Institutional Services (continued)

Table 12: C&IS Trust, Investment and Other Servicing Fees

	Three Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Custody and Fund Administration	$293.9	$275.0	$18.9	7 %
Investment Management	82.6	75.4	7.2	10
Securities Lending	19.8	22.0	(2.2)	(10)
Other	33.4	27.5	5.9	21
Total C&IS Trust, Investment and Other Servicing Fees	$429.7	$399.9	$29.8	7 %

Custody and fund administration fees, the largest component of C&IS fees, are driven primarily by values of client assets under custody, 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 7%, driven by new business and higher equity markets, partially offset by the unfavorable impact of movements in foreign exchange rates. Investment management fees increased 10% due to new business and lower money market mutual fund fee waivers. Money market mutual fund fee waivers in C&IS totaled $12.2 million in the current quarter compared to $16.7 million in the prior-year quarter. Securities lending decreased 10% due to changes in fee arrangements.

Foreign exchange trading income totaled $60.0 million in the current quarter, an increase of $15.6 million, or 35%, from $44.4 million in the prior-year quarter. The increase was primarily attributable to higher currency volatility as compared to the prior-year quarter.

Other noninterest income in C&IS totaled $45.9 million in the current quarter, up 7%, from $42.8 million in the prior-year quarter, primarily due to higher security commissions and trading income and increases within various other miscellaneous income categories.

Net interest income stated on an FTE basis was $108.6 million in the current quarter, up $30.2 million, or 39% from $78.4 million in the prior-year quarter. The increase in net interest income was attributable to an increase in the net interest margin, partially offset by lower levels of average earning assets. The changes to both the net interest margin and average earning assets versus prior-year period were primarily due to a change in presentation, as certain assets were transferred to the Treasury and Other segment in the first quarter of 2015 and the related internal funds pricing method was updated. As a result, the net interest margin increased to 1.27% from 0.58% in the prior-year quarter while average earning assets totaled $34.0 billion, a decrease of $19.3 billion, or 36%, from $53.3 billion in the prior-year quarter. The earning assets that remain in C&IS consist primarily of intercompany assets and loans and leases. Funding sources were primarily comprised of non-U.S. custody-related interest-bearing deposits, which averaged $45.7 billion in the current quarter, an increase of 3%, from $44.6 billion in the prior-year quarter.

The provision for credit losses was a credit of $2.8 million in the current quarter, reflecting continued improvement in credit quality. The prior-year quarter included a provision of $0.9 million.

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 $464.6 million in the current quarter, up $35.0 million, or 8%, from $429.6 million in the prior-year quarter. The increase was primarily attributable to higher indirect expense allocations and outside services expense in the current quarter.

Wealth Management

Wealth Management net income was $115.0 million in the current quarter, up $14.5 million, or 14%, from $100.5 million in the prior-year quarter. Noninterest income was $350.6 million, up $9.4 million, or 3%, from $341.2 million in the prior-year quarter, primarily reflecting higher security commissions and trading income and increases within various miscellaneous categories of

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REPORTING SEGMENTS (continued)
Wealth Management

other operating income. Trust, investment and other servicing fees in Wealth Management totaled $319.4 million in the current quarter, up slightly from $318.3 million in the prior-year quarter. The following table provides a summary of Wealth Management trust, investment and other servicing fees.

Table 13: Wealth Management Trust, Investment and Other Servicing Fees

($ In Millions)	Three Months Ended September 30, 2015	2014	Change	
Central	$126.8	$129.5	$(2.7)	(2)%
East	82.1	83.2	(1.1)	(1)
West	66.8	67.5	(0.7)	(1)
Global Family Office	43.7	38.1	5.6	15
Total Wealth Management Trust, Investment and Other Servicing Fees	$319.4	$318.3	$1.1	—%

Wealth Management fee income is calculated primarily based on market values. Global Family Office fees increased 15%, primarily attributable to new business, while fees across the regions decreased 1% to 2%. Money market mutual fund fee waivers in Wealth Management totaled $15.3 million in the current quarter compared to $16.9 million in the prior-year quarter.

Other noninterest income totaled $28.3 million in the current quarter, up $7.4 million, or 35%, from $20.9 million in the prior-year quarter, primarily reflecting higher security commissions and trading income and increases within various miscellaneous categories of other operating income.

Net interest income stated on an FTE basis was $142.5 million in the current quarter, up $11.3 million, or 9%, from $131.2 million in the prior-year quarter, primarily reflecting higher levels of average earning assets. The net interest margin totaled 2.26% in both the current and prior-year quarters. Earning assets averaged $25.0 billion, up $2.0 billion, or 9%, from $23.0 billion in the prior-year quarter. 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 of $7.2 million in the current quarter, reflecting improvement in the credit quality of commercial real estate and private client loans, and a decrease in the level of residential real estate loans, partially offset by an increase in the level of private client and commercial real estate loans. The provision for credit losses was a credit of $0.9 million in the prior-year quarter.

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 $316.3 million in the current quarter, compared to $312.1 million in the prior-year quarter, an increase of 1%. The increase was primarily attributable to higher indirect expense allocations, partially offset by lower expense for outside services and compensation in the current quarter.

Treasury and Other

Treasury and Other includes income and expense associated with the wholesale funding activities and the investment portfolios of the Corporation and the Bank, and certain corporate-based expenses, executive-level compensation and nonrecurring items not allocated to C&IS and Wealth Management. Treasury and Other noninterest income totaled $0.4 million in the current quarter, compared to $1.3 million in the prior-year quarter.

Net interest income decreased $22.7 million, or 49%, to $23.9 million in the current quarter, compared to $46.6 million in the prior-year quarter. The decrease reflects a decline in the net interest margin, partially offset by higher levels of earning assets. The changes to both the net interest margin and average earning assets versus prior year are primarily due to a change in presentation, as certain assets were transferred to Treasury and Other from C&IS and the related internal funds pricing method was updated in the prior quarter. Average earning assets increased $21.1 billion to $41.7 billion from the prior-year quarter's $20.6 billion.

Noninterest expense totaled $31.4 million in the current quarter, down 5%, from $33.0 million in the prior-year quarter, primarily reflecting higher indirect expense allocations to C&IS and Wealth Management, partially offset by higher general overhead costs, including equipment and software expense, compensation and outside services as compared to the prior-year quarter.

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NINE-MONTH CONSOLIDATED RESULTS OF OPERATIONS

Overview

Net income per diluted common share was $3.00 for the nine months ended September 30, 2015 and $2.34 in the comparable prior-year period. Net income totaled $734.5 million, up $166.7 million, or 29%, as compared to $567.8 million in the prior-year period. The performance in the current period produced an annualized return on average common equity of 11.7%, compared to 9.5% in the prior-year period. The annualized return on average assets was 0.9%, compared to 0.7% in the prior-year period.

The current period includes a net pre-tax gain on the sale of 1.0 million Visa Inc. Class B common shares totaling $99.9 million; voluntary cash contributions to certain constant dollar NAV funds of $45.8 million; and the impairment of the residual value of certain aircraft under leveraged lease agreements of $17.8 million. Excluding these items, net income per diluted common share, net income, and return on average common equity were $2.91, $712.1 million and 11.3%, respectively.

The prior-year period included pre-tax charges of $32.8 million for severance and related costs and for the realignment of the Corporation’s real estate portfolio and $9.5 million of software write-offs. Excluding these items, net income per diluted common share, net income, and return on average common equity were $2.45, $595.6 million, and 10.0% respectively.

Revenue for the nine months ended September 30, 2015 totaled $3.55 billion, up $344.8 million, or 11%, as compared to $3.20 billion in the prior-year period. Noninterest income was $2.77 billion, up $305.7 million, or 12%, from $2.46 billion in the prior-year period. Trust, investment and other servicing fees increased $128.8 million, or 6%, to $2.23 billion from $2.10 billion in the prior-year period.

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NINE-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Income

The components of noninterest income are provided below.

Table 14: Nine Months Ended September 30 Noninterest Income

Noninterest Income	Nine Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Trust, Investment and Other Servicing Fees	$2,233.4	$2,104.6	$128.8	6 %
Foreign Exchange Trading Income	209.3	149.4	59.9	40
Treasury Management Fees	48.5	49.8	(1.3)	(3)
Security Commissions and Trading Income	60.2	46.7	13.5	29
Other Operating Income	214.1	112.3	101.8	91
Investment Security Losses, net	(0.3)	(3.3)	3.0	(91)
Total Noninterest Income	$2,765.2	$2,459.5	$305.7	12 %

As illustrated in the following table, trust, investment and other servicing fees from C&IS increased $94.5 million, or 8%, totaling $1.27 billion, compared to $1.17 billion a year ago.

Table 15: Nine Months Ended September 30 C&IS Trust, Investment and Other Servicing Fees

C&IS Trust, Investment and Other Servicing Fees	Nine Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Custody and Fund Administration	$864.6	$788.3	$76.3	10 %
Investment Management	239.6	228.1	11.5	5
Securities Lending	68.2	74.7	(6.5)	(9)
Other	96.6	83.4	13.2	16
Total	$1,269.0	$1,174.5	$94.5	8 %

Custody and fund administration fees, the largest component of C&IS fees, increased 10%, primarily driven by new business and higher equity markets, partially offset by the unfavorable impact of movements in foreign exchange rates. C&IS investment management fees increased 5%, primarily reflecting new business, lower money market mutual fund fee waivers and higher equity markets. Money market mutual fund fee waivers in C&IS totaled $41.0 million, compared to waived fees of $46.4 million in the prior-year period. Securities lending revenue decreased 9%, reflecting changes in fee arrangements and lower spreads, partially offset by higher loan volumes in the current period. Other fees in C&IS increased 16%, primarily reflecting increased sub-advisory fees and new business in investment risk and analytical services.

As illustrated in the following table, trust, investment and other servicing fees from Wealth Management increased $34.3 million, or 4%, totaling $964.4 million, compared to $930.1 million a year ago.

Table 16: Nine Months Ended September 30 Wealth Management Trust, Investment and Other Servicing Fees

	Nine Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Wealth Management Trust, Investment and Other Servicing Fees				
Central	$385.8	$379.8	$6.0	2 %
East	250.4	242.9	7.5	3
West	202.1	194.9	7.2	4
Global Family Office	126.1	112.5	13.6	12
Total	$964.4	$930.1	$34.3	4 %

The increase is primarily due to higher equity markets and new business. Money market mutual fund fee waivers in Wealth Management totaled $47.6 million, compared with $50.4 million in the prior-year period.

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NINE-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)
Noninterest Income (continued)

Foreign exchange trading income increased $59.9 million, or 40%, and totaled $209.3 million compared with $149.4 million in the prior-year period. The increase was attributable to higher currency volatility and client volumes compared to the prior-year period.

Other operating income totaled $214.1 million, up $101.8 million, compared to $112.3 million in the prior-year period. The components of other operating income are provided below.

Table 17: Nine Months Ended September 30 Other Operating Income

Other Operating Income	Nine Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Loan Service Fees	$44.3	$47.0	$(2.7)	(6)%
Banking Service Fees	35.6	37.2	(1.6)	(4)
Other Income	134.2	28.1	106.1	N/M
Total Other Operating Income	$214.1	$112.3	$101.8	91 %

The current-year period other income includes a $99.9 million net gain on the sale of 1.0 million Visa Inc. Class B common shares held by the Corporation. Excluding the gain, other operating income totaled $114.2 million, relatively unchanged from the prior-year period, reflecting increases in various other income categories offset by lower loan service and banking service fees.

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NINE-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 18: AVERAGE CONSOLIDATED BALANCE SHEETS WITH ANALYSIS OF NET INTEREST INCOME	NORTHERN TRUST CORPORATION Nine Months Ended September 30,							
(INTEREST AND RATE ON A FULLY TAXABLE EQUIVALENT BASIS)	2015				2014			
($ In Millions)	Interest	Average Balance	Rate (4)		Interest	Average Balance	Rate (4)	
Average Earning Assets								
Federal Funds Sold and Securities Purchased under								
Agreements to Resell	$3.7	$1,052.2	0.47	%	$2.3	$670.6	0.47	%
Interest-Bearing Due from and Deposits with Banks (1)	82.3	16,006.0	0.69		96.6	16,879.0	0.77	
Federal Reserve Deposits	26.8	14,065.9	0.25		26.9	13,967.6	0.26	
Securities								
U.S. Government	40.2	4,802.9	1.12		21.0	2,574.0	1.09	
Obligations of States and Political Subdivisions	5.7	112.3	6.77		8.8	176.4	6.68	
Government Sponsored Agency	106.6	16,509.5	0.86		108.3	17,858.3	0.81	
Other (2)	100.6	15,838.1	0.85		83.5	12,815.0	0.87	
Total Securities	253.1	37,262.8	0.91		221.6	33,423.7	0.89	
Loans and Leases (3)	546.1	32,723.6	2.23		558.0	29,832.9	2.50	
Total Earning Assets	912.0	101,110.5	1.21		905.4	94,773.8	1.28	
Allowance for Credit Losses Assigned to Loans and Leases	—	(260.6)	—		—	(276.0)	—	
Cash and Due from Banks	—	2,137.3	—		—	2,814.6	—	
Buildings and Equipment	—	443.0	—		—	451.3	—	
Client Security Settlement Receivables	—	979.1	—		—	835.1	—	
Goodwill	—	531.1	—		—	541.9	—	
Other Assets	—	4,777.9	—		—	3,815.1	—	
Total Assets	$—	$109,718.3	—	%	$—	$102,955.8	—	%
Average Source of Funds								
Deposits								
Savings and Money Market	$7.3	$15,410.9	0.06	%	$7.3	$14,854.9	0.07	%
Savings Certificates and Other Time	5.5	1,668.5	0.44		4.8	1,908.5	0.34	
Non-U.S. Offices — Interest-Bearing	40.2	48,943.0	0.11		52.0	48,101.2	0.14	
Total Interest-Bearing Deposits	53.0	66,022.4	0.11		64.1	64,864.6	0.13	
Short-Term Borrowings	3.9	4,485.5	0.12		3.8	4,544.5	0.11	
Senior Notes	35.2	1,497.1	3.14		42.8	1,716.5	3.34	
Long-Term Debt	18.8	1,441.4	1.75		29.0	1,668.9	2.32	
Floating Rate Capital Debt	1.7	277.3	0.84		1.7	277.2	0.81	
Total Interest-Related Funds	112.6	73,723.7	0.20		141.4	73,071.7	0.26	
Interest Rate Spread	—	—	1.01		—	—	1.02	
	—	23,956.8	—		—	18,857.0	—	

Demand and Other Noninterest-Bearing Deposits								
Other Liabilities	—	3,439.9	—		—	2,972.8	—	
Stockholders’ Equity	—	8,597.9	—		—	8,054.3	—	
Total Liabilities and Stockholders’ Equity	$—	$109,718.3	—	%	$—	$102,955.8	—	%
Net Interest Income/Margin (FTE Adjusted)	$799.4	$—	1.06	%	$764.0	$—	1.08	%
Net Interest Income/Margin (Unadjusted)	$780.7	$—	1.03	%	$741.6	$—	1.05	%

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NINE-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Net Interest Income (continued)

ANALYSIS OF NET INTEREST INCOME CHANGES
DUE TO VOLUME AND RATE

	Nine Months ended September 30, 2015/2014		
	Change Due To		
(In Millions)	Average Balance	Rate	Total
Earning Assets (FTE)	$58.2	$(51.6)	$6.6
Interest-Related Funds	1.4	(30.2)	(28.8)
Net Interest Income (FTE)	$56.8	$(21.4)	$35.4

(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 September 30, 2015 and 2014.

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

(4) 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) 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 37.6% and 37.8% for the nine months ended September 30, 2015 and 2014, respectively. Total taxable equivalent interest adjustments amounted to $18.7 million and $22.5 million for the nine months ended September 30, 2015 and 2014, respectively.

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 $799.4 million, an increase of $35.4 million, or 5%, from $764.0 million reported in the prior-year period. The increase is the result of growth in earning assets, offset by a $17.8 million impairment of the residual value of certain aircraft under leveraged lease agreements. Average earning assets were $101.1 billion, up $6.3 billion, or 7%, from $94.8 billion in the prior-year period, primarily attributable to higher levels of securities and loans. The net interest margin, on an FTE basis, declined to 1.06% from 1.08% in the prior-year period. Excluding the impairment, the net interest margin was unchanged from the prior-year period.

Provision for Credit Losses

The provision for credit losses was a credit of $24.5 million in the current-year period, compared to a provision of $3.0 million recorded in the prior-year period. Net charge-offs in the current-year period totaled $16.6 million resulting from $25.5 million of charge-offs and $8.9 million of recoveries, compared to net charge-offs of $12.6 million in the prior-year period resulting from $27.9 million of charge-offs and $15.3 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 77% and 67% of total nonperforming loans and leases at September 30, 2015 and 2014, respectively. Loan balances within the private client, commercial and institutional and commercial real estate loan portfolios increased in the current period, while the residential real estate loan balance decreased. For a fuller discussion of the consolidated allowance and provision for credit losses refer to the “Asset Quality” section beginning on page 21.

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NINE-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Expense

Noninterest expense totaled $2.46 billion for the current period, up $102.1 million, or 4%, compared to $2.35 billion in the prior-year period. The components of noninterest expense are provided below.

Table 19: Nine Months Ended September 30 Noninterest Expense

Noninterest Expense	Nine Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Compensation	$1,077.8	$1,062.2	$15.6	1 %
Employee Benefits	215.9	206.0	9.9	5
Outside Services	440.6	431.4	9.2	2
Equipment and Software	338.3	317.9	20.4	6
Occupancy	129.7	135.2	(5.5)	(4)
Other Operating Expense	253.5	201.0	52.5	26
Total Noninterest Expense	$2,455.8	$2,353.7	$102.1	4 %

Compensation expense, the largest component of noninterest expense increased to $1.08 billion from the prior-year period's $1.06 billion. The prior-year period included severance-related charges of $25.5 million. Excluding the severance-related charges, compensation expense increased $41.1 million, or 4%, primarily reflecting higher performance-based compensation, staff levels and base pay adjustments, partially offset by favorable impact of movements in foreign exchange rates.

Employee benefit expense increased $9.9 million, or 5% to $215.9 million from $206.0 million in the prior-year period. The prior-year period included $1.9 million of severance-related charges. Excluding these charges, employee benefit expense increased $11.8 million, or 6%, primarily attributable to higher pension expense.

Outside services expense equaled $440.6 million, up $9.2 million, or 2%, from $431.4 million in the prior-year period. In the prior-year period, outside services expense included $1.1 million of severance-related charges. Excluding these charges, outside services expense increased $10.3 million, or 2%, primarily reflecting higher technical services and consulting expense, partially offset by lower third-party advisor fees, sub-custodian and legal expense.

Equipment and software expense totaled $338.3 million, up $20.4 million, or 6% from $317.9 million in the prior-year period. The prior-year period included $9.5 million of write-offs of replaced or eliminated software. Excluding these write-offs, equipment and software expense increased $29.9 million, or 10%, reflecting higher software amortization.

Occupancy expense equaled $129.7 million, down $5.5 million, or 4%, from $135.2 million in the prior-year period. The prior-year period included charges totaling $4.3 million in connection with reductions in office space. Excluding these charges, occupancy expense was relatively unchanged from the prior-year period.

The components of other operating expense are provided below.

Table 20: Nine Months Ended September 30 Other Operating Expense

Other Operating Expense	Nine Months Ended September 30,			
($ In Millions)	2015	2014	Change	
Business Promotion	$69.5	$66.6	$2.9	4 %
Staff Related	28.0	30.3	(2.3)	(8)
FDIC Insurance Premiums	18.2	16.4	1.8	11
Other Intangibles Amortization	8.8	14.7	(5.9)	(40)
Other Expenses	129.0	73.0	56.0	77
Total Other Operating Expense	$253.5	$201.0	$52.5	26 %

Other operating expense totaled $253.5 million, up $52.5 million, or 26%, from $201.0 million in the prior-year period. The current-year period other expenses includes a charge related to voluntary cash contributions to certain constant dollar NAV funds totaling

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NINE-MONTH CONSOLIDATED RESULTS OF OPERATIONS (continued)

Noninterest Expense (continued)

$45.8 million. Excluding the current-period charge, other operating expense increased $6.7 million, or 3%, reflecting higher charitable contributions and charges associated with account servicing activities.

Provision for Income Taxes

Income tax expense was $380.1 million for the nine months ended September 30, 2015, representing an effective tax rate of 34.1%. The provision for income taxes was $276.6 million for the nine months ended September 30, 2014, representing an effective tax rate of 32.8%.

CONSOLIDATED BALANCE SHEETS

Total assets were $120.0 billion and $109.9 billion at September 30, 2015, and December 31, 2014, respectively, and averaged $109.9 billion in the current quarter compared with $105.2 billion in the quarter ended September 30, 2014. Average balances are considered to be a better measure of balance sheet trends, as period-end balances can be impacted by deposit and withdrawal activity involving large client balances. Loans and leases totaled $33.4 billion and $31.6 billion at September 30, 2015, and December 31, 2014, respectively, and averaged $33.1 billion in the current quarter, up 10% from $30.3 billion in the quarter ended September 30, 2014. 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 $37.4 billion and $34.2 billion at September 30, 2015, and December 31, 2014, respectively, and averaged $38.0 billion for the current quarter, up 13% from $33.6 billion in the quarter ended September 30, 2014. 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 deposits totaled $39.8 billion and $35.1 billion at September 30, 2015, and December 31, 2014, respectively, and averaged $29.6 billion in the current quarter, down 11% from the quarter ended September 30, 2014 balances, primarily reflecting decreased Federal Reserve deposits. Interest-bearing client deposits at September 30, 2015, and December 31, 2014, totaled $70.4 billion and $65.2 billion, respectively, and averaged $66.8 billion in the current quarter, up 2% compared to $65.6 billion in the quarter ended September 30, 2014. Noninterest-bearing client deposits at September 30, 2015, and December 31, 2014, totaled $29.5 billion and $25.5 billion, respectively, and averaged $24.3 billion in the current quarter, up 21% from $20.1 billion in the quarter ended September 30, 2014.

Total stockholders’ equity at September 30, 2015, was $8.8 billion compared to $8.4 billion at December 31, 2014, and averaged $8.7 billion for the current quarter, up 5% from $8.3 billion for the quarter ended September 30, 2014. The increase in average stockholders’ equity compared to the prior-year quarter was primarily attributable to earnings, partially offset by dividend declarations and the repurchase of common stock pursuant to the Corporation’s share repurchase program.

During the three and nine months ended September 30, 2015, the Corporation declared cash dividends totaling $85.0 million and $248.7 million to common stockholders, and cash dividends totaling $5.8 million and $17.5 million to preferred stockholders, respectively. During the three and nine ended September 30, 2015, the Corporation repurchased 1,914,950 shares of common stock at a cost of $140.5 million ($73.37 average price per share) and 4,766,083 shares at a cost of $344.4 million ($72.27 average price per share), respectively.

CAPITAL RATIOS

The capital ratios of the Corporation and the Bank remained strong at September 30, 2015, with all ratios applicable to classification as “well capitalized” under U.S. regulatory requirements having exceeded all “well capitalized” ratio guidelines.

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CAPITAL RATIOS (continued)

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

Table 21: Regulatory Capital Ratios

Capital Ratios — Northern Trust Corporation	September 30, 2015		June 30, 2015		September 30, 2014	
	Advanced Approach	Standardized Approach (a)	Advanced Approach	Standardized Approach (a)	Advanced Approach	Standardized Approach (a)
Common Equity Tier 1	12.4 %	10.4 %	12.0 %	10.7 %	12.7 %	12.8 %
Tier 1	13.0 %	11.0 %	12.6 %	11.2 %	13.4 %	13.6 %
Total	14.8 %	12.8 %	14.4 %	13.2 %	15.3 %	16.0 %
Tier 1 Leverage	7.8 %	7.8 %	7.6 %	7.6 %	n/a	7.9 %
Supplementary Leverage (b)	6.4 %	n/a	6.3 %	n/a	n/a	n/a
Capital Ratios — The Northern Trust Company	September 30, 2015		June 30, 2015		September 30, 2014	
	Advanced Approach	Standardized Approach (a)	Advanced Approach	Standardized Approach (a)	Advanced Approach	Standardized Approach (a)
Common Equity Tier 1	12.0 %	9.9 %	11.6 %	10.1 %	11.7 %	11.6 %
Tier 1	12.0 %	9.9 %	11.6 %	10.1 %	11.7 %	11.6 %
Total	13.6 %	11.6 %	13.2 %	11.9 %	13.7 %	14.0 %
Tier 1 Leverage	7.0 %	7.0 %	6.8 %	6.8 %	n/a	6.8 %
Supplementary Leverage (b)	5.7 %	n/a	5.6 %	n/a	n/a	n/a

(a) In 2014, Standardized Approach risk-weighted assets were determined by Basel I requirements. Effective with the first quarter of 2015, risk-weighted assets are calculated in accordance with the Basel III Standardized Approach final rules.

(b) Beginning with the first quarter of 2015, advanced approaches banking organizations must calculate and report their supplementary leverage ratio. Effective January 1, 2018, advanced approaches institutions, such as the Corporation, will be subject to a minimum supplementary leverage ratio of 3 percent.

STATEMENTS OF CASH FLOWS

Net cash provided by operating activities of $483.8 million for the nine months ended September 30, 2015, was primarily attributable to period earnings and the impact of non-cash charges such as amortization of computer software, partially offset by other operating activities and increased net collateral deposited with counterparties. For the nine months ended September 30, 2014, net cash provided by operating activities totaled $1.3 billion, primarily attributable to period earnings, and the impact of non-cash charges such as amortization of computer software, other operating activities and a reduction of net collateral deposited with derivative counterparties.

Net cash used in investing activities of $10.5 billion for the nine months ended September 30, 2015, primarily reflects higher levels of Federal Reserve deposits, net purchases of securities available for sale and held to maturity and increased loans and leases, partially offset by decreased levels of interest-bearing deposits with banks. For the nine months ended September 30, 2014, net cash used in investing activities was $9.1 billion, primarily reflecting increased levels of Federal Reserve deposits, net purchases of securities held to maturity, and increased levels of loans and leases, partially offset by decreased levels of interest-bearing deposits with banks.

Net cash provided by financing activities of $11.6 billion for the nine months ended September 30, 2015, primarily reflects higher levels of total deposits and increased short-term other borrowings, partially offset by lower federal funds purchased and securities sold under agreements to repurchase and the repurchase of common stock pursuant to the Corporation’s share repurchase program. The increase in total deposits is attributable to higher levels of interest-bearing and noninterest-bearing non-U.S. office client and demand and other noninterest-bearing client deposits. For the nine months ended September 30, 2014, net cash provided by financing activities totaled $7.5 billion, primarily reflecting increased total deposits and proceeds from the issuance of Series C Preferred Stock, partially offset by repayments of senior notes and other long-term debt and the repurchase of common stock pursuant to the

Corporation’s share repurchase program.

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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 September 30, 2015, comprised of U.S. Treasury and government sponsored agency securities and triple-A rated corporate notes, asset-backed securities, covered bonds, sub-sovereign, supranational, sovereign and non-U.S. agency bonds, auction rate securities, 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, 6% was rated double-A, 3% was rated below double-A, and 9% was not rated by Standard and Poor’s or Moody’s Investors Service (primarily negotiable certificates of deposits of banks whose long term ratings are at least A).

Net unrealized gains within the investment securities portfolio totaled $70.2 million at September 30, 2015, comprised of $145.0 million and $74.8 million of gross unrealized gains and losses, respectively. Of the unrealized losses on securities at September 30, 2015, the largest component was $34.1 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 are 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, $20.1 million of the unrealized losses related to corporate debt securities, primarily reflecting higher market rates since purchase; 35% of the corporate debt portfolio is backed by guarantees provided by U.S. and non-U.S. governmental entities. Unrealized losses of $12.7 million related to government sponsored agency securities were primarily attributable to changes in market rates since their purchase.

There were no other-than-temporary impairment (OTTI) losses for the nine months ended September 30, 2015. For the nine months ended September 30, 2014, charges of $3.9 million were recorded relating to OTTI of certain CRA-eligible securities. 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.
Table 22: Nonperforming Assets

($ In Millions)	September 30, 2015	June 30, 2015	September 30, 2014
Nonperforming Loans and Leases			
Commercial			
Commercial and Institutional	$20.3	$23.4	$31.7
Commercial Real Estate	25.2	26.0	39.9
Total Commercial	45.5	49.4	71.6
Personal			
Residential Real Estate	152.6	158.2	147.3
Private Client	0.5	1.1	1.6
Total Personal	153.1	159.3	148.9
Total Nonperforming Loans and Leases	198.6	208.7	220.5
Other Real Estate Owned	8.9	10.1	10.7
Total Nonperforming Assets	207.5	218.8	231.2
90 Day Past Due Loans Still Accruing	$2.3	$14.9	$25.1
Nonperforming Loans and Leases to Total Loans and Leases	0.59 %	0.63 %	0.72 %
Coverage of Loan and Lease Allowance to Nonperforming Loans and Leases	1.2x	1.2x	1.2x

Nonperforming assets of $207.5 million as of September 30, 2015, reflected improved credit quality from the prior year, though they remained elevated from levels preceding the economic downturn in 2008 and its impact on residential property valuations and general economic conditions. The loan portfolio in the current quarter reflected improvement in the credit quality of the commercial and institutional, commercial real estate and private client loan classes. 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.
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

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ASSET QUALITY (continued)
Provision and Allowance for Credit Losses (continued)

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. Changes in collateral values, delinquency ratios, portfolio volume and concentration and other asset quality metrics, including management’s subjective evaluation of economic and business conditions, result in adjustments of qualitative allowance factors that are applied in the determination of inherent allowance requirements.

The provision for credit losses was a credit of $10.0 million in the current quarter, compared to no provision in the prior-year quarter. Net charge-offs were $9.4 million, resulting from $11.9 million of charge-offs and $2.5 million of recoveries, compared to $5.2 million of net charge-offs in the prior-year quarter, resulting from $8.6 million of charge-offs and $3.4 million of recoveries. Residential real estate loans accounted for 77% and 67% of total nonperforming loans and leases at September 30, 2015, and 2014, respectively.

Note 7 to the consolidated financial statements includes a table that details the changes in the allowance for credit losses during the three and nine months ended September 30, 2015, and 2014 due to charge-offs, recoveries and provisions for credit losses.

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

Table 23: Allocation of the Allowance for Credit Losses

($ In Millions)	September 30, 2015		June 30, 2015		September 30, 2014	
	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans	Allowance Amount	Percent of Loans to Total Loans
Specific Allowance	$4.0	— %	$15.3	— %	$24.0	— %
Allocated Inherent Allowance						
Commercial						
Commercial and Institutional	66.1	28	66.7	27	71.9	27
Commercial Real Estate	63.5	12	67.8	11	68.3	10
Lease Financing, net	3.6	2	3.6	3	3.7	3
Non-U.S.	2.3	4	2.2	5	2.1	5
Other	—	—	—	1	—	—
Total Commercial	135.5	46	140.3	47	146.0	45
Personal						
Residential Real Estate	95.9	27	99.2	28	110.4	32
Private Client	19.3	27	19.4	25	17.9	23
Other	—	—	—	—	—	—
Total Personal	115.2	54	118.6	53	128.3	55
Total Allocated Inherent Allowance	$250.7	100 %	$258.9	100 %	$274.3	100 %
Total Allowance for Credit Losses	$254.7		$274.2		$298.3	
Allowance Assigned to						
Loans and Leases	$242.2		$257.3		$269.4	
Undrawn Commitments and Standby Letters of Credit	12.5		16.9		28.9	
Total Allowance for Credit Losses	$254.7		$274.2		$298.3	
Allowance Assigned to Loans and Leases to Total Loans and Leases	0.73 %		0.78 %		0.88 %	

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MARKET RISK MANAGEMENT

Northern Trust faces two primary types of market risk through its business operations: interest rate risk, which is the potential for movements in interest rates to cause changes in earnings and the economic value of equity; and trading risk, which is the potential for movements in market variables such as foreign exchange rates and interest rates to cause changes in the value of trading positions.

Northern Trust uses two primary measurement techniques to manage interest rate risk: sensitivity of earnings (SOE) and sensitivity of economic value of equity (SEVE). SOE provides management with a short-term view of the impact of interest rate changes on future earnings. SEVE provides management with a long-term view of interest rate changes on the economic value of equity as of the period-end balance sheet. Both simulation models use the same initial market interest rates and product balances. These two techniques, which are performed monthly, are complementary and are used in concert to provide a comprehensive interest rate risk management capability.

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, 2014.

Sensitivity of Earnings — The modeling of SOE 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) in earnings if future rates are 100 or 200 basis points higher than base case forward rates. The following table shows the estimated impact on the next twelve months of pre-tax earnings of 100 and 200 basis point upward movements in interest rates relative to forward rates. Given the low level of interest rates, the simulation of earnings for rates 100 and 200 basis points lower would not provide meaningful results.

Table 24: Sensitivity of Earnings to Changes in Interest Rates

($ In Millions)	Increase/(Decrease) Estimated Impact on Next Twelve Months of Pre-Tax Earnings
Increase in Interest Rates Above Market-Implied Forward Rates	
100 Basis Points	$17
200 Basis Points	$(2)

The simulations of earnings incorporate several assumptions but 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. SOE is not directly comparable to actual results disclosed elsewhere or directly predictive of future values of other measures provided.

Sensitivity of Economic Value of Equity — Economic value of equity 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 economic equity 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 the sensitivity (i.e. change) if current rates are immediately shocked up by 100 or 200 basis points. The following table shows the estimated impact on economic value of equity of 100 and 200 basis point shocks up from current interest rates. Given the low level of interest rates and assumed interest rate floors as rates approach zero, the simulation of the economic value of equity for rates 100 or 200 basis points lower would not provide meaningful results.

Table 25: Sensitivity of Economic Value of Equity to Changes in Interest Rates as of September 30, 2015

($ In Millions)	Increase/(Decrease) Estimated Impact on Economic Value of Equity

Increase in Interest Rates Above Market Rates	
100 Basis Points	$ (38)
200 Basis Points	$ (286)

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The simulations of economic value of equity incorporate several assumptions but 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. SEVE is not directly 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. The table below presents the levels of total regulatory VaR and its subcomponents for global foreign currency as September 30, 2015, and June 30, 2015, 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 26: Foreign Currency Value-At-Risk

	Total VaR (Spot and Forward)		Foreign Exchange Spot VaR		Foreign Exchange Forward VaR	
($ In Millions)	September 30, 2015	June 30, 2015	September 30, 2015	June 30, 2015	September 30, 2015	June 30, 2015
High	$0.8	$0.7	$0.8	$0.7	$0.3	$0.2
Low	0.1	0.1	—	—	0.1	0.1
Average	0.3	0.2	0.1	0.1	0.2	0.1
Quarter-End	0.6	0.3	0.2	0.2	0.1	0.2

RECONCILIATION OF CERTAIN REPORTED ITEMS TO FULLY TAXABLE EQUIVALENTS

The tables below present a reconciliation of interest income, net interest income and net interest margin prepared in accordance with GAAP to interest income, net interest income and net interest margin on an FTE basis, which are non-GAAP financial measures. Management believes an FTE presentation facilitates the analysis of asset yields and provides an additional presentation of net interest margins for comparative purposes that may be helpful to investors.

Table 27: Reconciliation of Reported Net Interest Income to Fully Taxable Equivalent

	Three Months Ended					
	September 30, 2015			September 30, 2014		
($ In Millions)	Reported	FTE Adj.	FTE	Reported	FTE Adj.	FTE
Interest Income	$305.7	$6.1	$311.8	$293.8	$6.9	