NORTHERN TRUST CORP
Form 10-Q
April 30, 2013

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 March 31, 2013

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	**(I.R.S. Employer**
incorporation or organization)	**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 ¨	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

239,239,836 Shares - $1.66 2/3 Par Value

(Shares of Common Stock Outstanding on March 31, 2013)

CONSOLIDATED FINANCIAL HIGHLIGHTS

(UNAUDITED)

FOR THE PERIOD ($ In Millions)	2013	Three Months Ended March 31, 2012	% Change (**)
Noninterest Income			
Trust, Investment and Other Servicing Fees	**$ 630.7**	$ 575.2	10%
Foreign Exchange Trading Income	**59.5**	61.9	(4)
Treasury Management Fees	**16.8**	17.4	(3)
Security Commissions and Trading Income	**18.3**	18.3	
Other Operating Income	**24.8**	38.6	(36)
Investment Security Gains (Losses), net	**0.2**	(2.4)	N/M
Total Noninterest Income	**750.3**	709.0	6
Net Interest Income	**226.1**	256.4	(12)
Provision for Credit Losses	**5.0**	5.0	
Net Interest Income after Provision for Credit Losses	**221.1**	251.4	(12)
Noninterest Expense			
Compensation	**320.3**	321.6	
Employee Benefits	**63.3**	68.1	(7)
Outside Services	**129.9**	128.2	1
Equipment and Software	**91.4**	90.8	1
Occupancy	**43.2**	41.8	3
Other Operating Expense	**80.8**	73.1	10
Total Noninterest Expense	**728.9**	723.6	1
Income before Income Taxes	**242.5**	236.8	2
Provision for Income Taxes	**78.5**	75.6	4
Net Income	**$ 164.0**	$ 161.2	2%
Average Total Assets	**$ 91,569.3**	$ 95,128.1	(4)%
PER COMMON SHARE			
Net Income Basic	**$ 0.68**	$ 0.66	3%
Diluted	**0.67**	0.66	2
Cash Dividends Declared Per Common Share (*)	**0.30**	0.58	N/M
Book Value End of Period (EOP)	**31.82**	29.95	6
Market Price EOP	**54.56**	47.45	15
RATIOS			
Return on Average Common Equity	**8.82%**	9.04%	
Return on Average Assets	**0.73**	0.68	
Dividend Payout Ratio	**44.8**	87.9	
Average Stockholders Equity to Average Assets	**8.2**	7.5	

PERIOD END ($ In Millions)	March 31, 2013	December 31, 2012	% Change (**)

Assets	**$ 93,156.8**	$ 97,463.8	(4)%
Earning Assets	**84,193.6**	87,472.7	(4)
Deposits	**75,822.1**	81,407.8	(7)
Stockholders Equity	**7,612.1**	7,527.0	1
PERIOD END CLIENT ASSETS ($ In Billions)			
Assets Under Custody	**$ 5,024.4**	$ 4,804.9	5%
Assets Under Management	**810.2**	758.9	7
RATIOS			
Tier 1 Capital to Risk-Weighted Assets EOP	**13.3%**	12.8%	
Total Capital to Risk-Weighted Assets EOP	**14.7**	14.3	
Tier 1 Leverage Ratio	**8.4**	8.2	

(*) The 2012 first quarter Cash Dividends Declared per Common Share balance of $0.58 was comprised of a $0.28 per common share dividend declared January 17, 2012, paid April 2, 2012, and a $0.30 per common share dividend declared March 14, 2012, paid July 2, 2012.

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

FIRST QUARTER CONSOLIDATED RESULTS OF OPERATIONS

General

Northern Trust Corporation (the Corporation), together with its subsidiaries, is a leading provider of asset servicing, fund administration, asset management, fiduciary and banking solutions for corporations, institutions, families, and individuals worldwide. Northern Trust focuses on servicing and managing client assets through its two primary business units, Personal Financial Services (PFS) and Corporate & Institutional Services (C&IS). Asset management and related services are provided to PFS and C&IS clients primarily by a third business unit, Northern Trust Global Investments (NTGI). Northern Trust emphasizes quality through a high level of service complemented by the effective use of technology, delivered by a fourth business unit, Operations & Technology (O&T). Except where the context otherwise requires, the term Northern Trust refers to Northern Trust 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 should also read the section entitled Factors Affecting Future Results.

Overview

Net income per common share in the first quarter of 2013 was $0.67 compared to $0.66 per common share in the first quarter of 2012. Net income for the current quarter was $164.0 million, up 2% from $161.2 million in the prior year quarter. The current quarter includes a $12.4 million write-off of certain fee receivables resulting from the correction of an accrual methodology followed in prior years, as well as restructuring and integration related charges of $1.8 million. These current quarter items total $14.2 million ($8.9 million after tax, or $0.04 per common share). The prior year quarter included restructuring, acquisition and integration related charges of $3.9 million ($2.6 million after tax, or $0.01 per common share).

The performance in the current quarter produced an annualized return on average common equity of 8.8% as compared to 9.0% in the prior year quarter. The annualized return on average assets was 0.7% in both the current and prior year quarter.

Consolidated revenue of $976.4 million in the current quarter was up $11.0 million, or 1%, from $965.4 million in the prior year quarter. Noninterest income, which represented 77% of revenue, increased $41.3 million, or 6%, to $750.3 million from the prior year quarter s $709.0 million, primarily reflecting higher trust, investment and other servicing fees.

Net interest income for the quarter decreased $30.3 million, or 12%, to $226.1 million as compared to $256.4 million in the prior year quarter, primarily due to a continued decline in the net interest margin and lower average earning assets.

Overview (continued)

Noninterest expense totaled $728.9 million in the current quarter compared to $723.6 million in the prior year quarter. The increase of 1% primarily reflects an increase in other operating expense, partially offset by a decrease in employee benefit expense.

Noninterest Income

The components of noninterest income are provided below.

Noninterest Income ($ In Millions)	Three Months Ended March 31, 2013	2012	Change	
Trust, Investment and Other Servicing Fees	**$ 630.7**	$ 575.2	$ 55.5	10%
Foreign Exchange Trading Income	**59.5**	61.9	(2.4)	(4)
Treasury Management Fees	**16.8**	17.4	(0.6)	(3)
Security Commissions and Trading Income	**18.3**	18.3		
Other Operating Income	**24.8**	38.6	(13.8)	(36)
Investment Security Gains (Losses), net	**0.2**	(2.4)	2.6	N/M
Total Noninterest Income	**$ 750.3**	$ 709.0	$ 41.3	6%

Trust, investment and other servicing fees are based generally on the market value of assets held in custody, managed and serviced; the volume of transactions; securities lending volume and spreads; and fees for other services rendered. Certain market value fee calculations are performed on a monthly or quarterly basis and can be based on the beginning, ending or daily average value of the client portfolio. Certain investment management fee arrangements also may provide for performance fees based on client portfolio returns that exceed predetermined levels.

The following tables present Northern Trust s assets under custody and assets under management by business segment.

Assets Under Custody ($ In Billions)	March 31, 2013	December 31, 2012	March 31, 2012	Change Q1-13/ Q4-12	Change Q1-13/ Q1-12
Corporate and Institutional	**$ 4,569.1**	$ 4,358.6	$ 4,188.6	5%	9%
Personal	**455.3**	446.3	406.6	2	12
Total Assets Under Custody	**$ 5,024.4**	$ 4,804.9	$ 4,595.2	5%	9%

Assets Under Management ($ In Billions)	March 31, 2013	December 31, 2012	March 31, 2012	Change Q1-13/ Q4-12	Change Q1-13/ Q1-12
Corporate and Institutional	**$ 604.2**	$ 561.2	$ 537.4	8%	12%
Personal	**206.0**	197.7	179.1	4	15
Total Assets Under Management	**$ 810.2**	$ 758.9	$ 716.5	7%	13%

C&IS assets under custody totaled $4.6 trillion, up 9% from the prior year quarter, and included $2.8 trillion of global custody assets, 10% higher compared to the prior year quarter. C&IS assets under management included $100.9 billion of securities lending collateral, a 5% increase from the prior year quarter.

Noninterest Income (continued)

Changes in assets under custody and under management are in comparison to the twelve month increase in the S&P 500 index and EAFE index (USD) of 11.4% and 7.8%, respectively.

Custodied and managed assets were invested as follows at March 31:

	2013			2012		
Assets Under Custody	C&IS	PFS	Consolidated	C&IS	PFS	Consolidated
Equities	**46%**	**50%**	**46%**	45%	45%	45%
Fixed Income Securities	**36**	**24**	**35**	36	26	35
Cash and Other Assets	**18**	**26**	**19**	19	29	20
Assets Under Management						
Equities	**53%**	**41%**	**50%**	51%	37%	47%
Fixed Income Securities	**14**	**29**	**18**	14	32	19
Cash and Other Assets	**33**	**30**	**32**	35	31	34

Trust, investment and other servicing fees in C&IS increased $31.7 million, or 10%, to $348.7 million in the current quarter from the prior year quarter s $317.0 million.

C&IS Trust, Investment and Other Servicing Fees	Three Months Ended March 31,			
($ In Millions)	2013	2012	Change	
Custody and Fund Administration	**$ 223.8**	$ 209.8	$ 14.0	7%
Investment Management	**75.5**	61.8	13.7	22
Securities Lending	**22.3**	21.5	0.8	4
Other	**27.1**	23.9	3.2	13
Total	**$ 348.7**	$ 317.0	$ 31.7	10%

Custody and fund administration fees, the largest component of C&IS fees, increased 7%, primarily reflecting the favorable impact of equity markets on fees and new business. C&IS investment management fees increased 22%, reflecting new business, the favorable impact of markets, and lower waived fees in money market mutual funds. Money market mutual fund fee waivers in C&IS, attributable to persistent low short-term interest rates, totaled $8.8 million in the current quarter, compared to waived fees of $10.6 million in the prior year quarter. Securities lending revenue increased 4%, primarily reflecting higher spreads and loan volumes in the current quarter.

Trust, investment and other servicing fees in PFS totaled $282.0 million in the current quarter, increasing $23.8 million, or 9%, from $258.2 million in the prior year quarter. The increased fees in the current quarter are primarily attributable to new business and the favorable impact of equity markets on fees. Money market mutual fund fee waivers in PFS totaled $13.4 million in the current quarter compared with $14.8 million in the prior year quarter.

Foreign exchange trading income totaled $59.5 million, down 4% compared with $61.9 million in the prior year quarter. The current quarter decrease is attributable to lower currency market volatility compared to the prior year quarter.

Noninterest Income (continued)

The components of other operating income are provided below.

Other Operating Income ($ In Millions)	Three Months Ended March 31, 2013	2012	Change	
Loan Service Fees	**$ 14.9**	$ 16.8	$ (1.9)	(11)%
Banking Service Fees	**12.4**	13.9	(1.5)	(11)
Other Income	**(2.5)**	7.9	(10.4)	N/M
Total Other Operating Income	**$ 24.8**	$ 38.6	$ (13.8)	(36)%

The other income component of other operating income includes the $12.4 million write-off of certain fee receivables resulting from a correction of an accrual methodology followed in prior years.

Net investment security gains totaled $226.6 thousand in the current quarter compared to net losses of $2.4 million in the prior year quarter.

Net Interest Income

Net interest income for the current quarter stated on a fully taxable equivalent (FTE) basis totaled $233.7 million, down $32.6 million, or 12%, from $266.3 million in the prior year quarter. The decrease reflects a continued decline in the net interest margin to 1.15% from 1.24% in the prior year quarter and lower average earning assets. The current quarter decline in the net interest margin primarily reflects lower yields on earning assets and a lower level of demand deposits, partially offset by a lower cost of interest-bearing liabilities. Average earning assets for the quarter were $82.2 billion, down $3.9 billion, or 5%, from $86.1 billion in the prior year quarter, primarily reflecting decreased Federal Reserve deposits. 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 stated on an FTE basis is a non-generally accepted accounting principle (GAAP) financial measure that facilitates the analysis of asset yields. 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 is provided on page 17.

Average Federal Reserve deposits and other interest-bearing assets totaled $3.9 billion for the current quarter compared to $7.7 billion for the prior year quarter, a decrease of $3.8 billion, or 50%.

Average securities, inclusive of Federal Reserve and Federal Home Loan Bank stock and certain community development investments, which are classified in other assets in the consolidated balance sheet, were $31.3 billion, relatively unchanged from the prior year quarter. Loans and leases averaged $28.7 billion, up slightly from $28.6 billion in the prior year quarter, reflecting growth in commercial and institutional loans, partially offset by a decrease in residential real estate loans. Commercial and institutional loans averaged $7.5 billion in the current quarter, up $0.5 billion, or 7%, from the prior year quarter s average of $7.0 billion.

Net Interest Income (continued)

Residential real estate loans averaged $10.4 billion in the current quarter, down $0.4 billion, or 3%, from the prior year quarter s average of $10.8 billion.

Northern Trust utilizes a diverse mix of funding sources. Total interest-bearing deposits averaged $56.5 billion in the current quarter compared to $56.7 billion in the prior year quarter, a decrease of $0.2 billion, or less than 1%. Other interest-bearing funds averaged $7.4 billion in the current quarter, a decrease of $1.2 billion, or 15%, as compared to $8.6 billion in the prior year quarter, primarily due to lower levels of 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 decreased $2.5 billion, or 12%, to $18.3 billion from $20.8 billion in the prior year quarter, resulting primarily from lower levels of demand and other noninterest-bearing deposits.

For additional quantitative analysis of average balances and interest rate changes affecting net interest income, refer to the Average Consolidated Balance Sheet with Analysis of Net Interest Income and the Analysis of Net Interest Income Changes Due To Volume and Rate on page 18.

Provision for Credit Losses

The provision for credit losses was $5.0 million in both the current quarter and prior year quarter. Net charge-offs totaled $8.7 million for the current quarter resulting from $12.6 million of charge-offs and $3.9 million of recoveries, compared to $5.8 million of net charge-offs in the prior year quarter resulting from $14.4 million of charge-offs and $8.6 million of recoveries. Nonperforming loans and leases decreased $10.4 million, or 4%, from the prior year quarter. Residential real estate loans and commercial real estate loans accounted for 69% and 21%, respectively, of total nonperforming loans at March 31, 2013. For additional discussion of the provision and allowance for credit losses, refer to the Asset Quality section on page 13.

Noninterest Expense

The components of noninterest expense are provided below.

Noninterest Expense	Three Months Ended March 31,			
($ In Millions)	2013	2012	Change	
Compensation	**$ 320.3**	$ 321.6	$ (1.3)	%
Employee Benefits	**63.3**	68.1	(4.8)	(7)
Outside Services	**129.9**	128.2	1.7	1
Equipment and Software	**91.4**	90.8	0.6	1
Occupancy	**43.2**	41.8	1.4	3
Other Operating Expense	**80.8**	73.1	7.7	10
Total Noninterest Expense	**$ 728.9**	$ 723.6	$ 5.3	1%

Noninterest Expense (continued)

Compensation expense, the largest component of noninterest expense, equaled $320.3 million, down slightly from $321.6 million in the prior year quarter. Staff on a full-time equivalent basis at March 31, 2013 totaled approximately 14,200, up 2% from a year ago.

Employee benefit expense equaled $63.3 million, down 7% compared to $68.1 million in the prior year quarter. The current quarter decrease primarily reflects lower expense associated with employee medical benefits.

Expense associated with outside services totaled $129.9 million, up 1% from $128.2 million in the prior year quarter, primarily reflecting higher technical services expense in the current quarter.

Equipment and software expense totaled $91.4 million, up 1% from $90.8 million in the prior year quarter. The prior year quarter included a $4.6 million software write-off. The current quarter includes higher levels of software amortization and support costs associated with the continued investment in technology related assets.

Occupancy expense equaled $43.2 million, an increase of 3% from $41.8 million in the prior year quarter. The current quarter includes $1.5 million of restructuring charges related to reductions in office space.

The components of other operating expense are provided below.

Other Operating Expense	Three Months Ended March 31,			
($ In Millions)	2013	2012	Change	
Business Promotion	**$ 28.6**	$ 28.3	$ 0.3	1%
FDIC Insurance Premiums	**6.6**	4.3	2.3	56
Staff Related	**10.5**	9.7	0.8	8
Other Intangible Amortization	**5.2**	4.6	0.6	14
Other Expenses	**29.9**	26.2	3.7	14
Total Other Operating Expense	**$ 80.8**	$ 73.1	$ 7.7	10%

The current quarter increase in the other expenses component of other operating expense primarily reflects higher charges associated with account servicing activities.

Provision for Income Taxes

Income tax expense was $78.5 million in the current quarter, representing an effective tax rate of 32.4%, and $75.6 million in the prior year quarter, representing an effective tax rate of 31.9%.

BUSINESS UNIT REPORTING

The following tables reflect the earnings contributions and average assets of Northern Trust s business units for the three month periods ended March 31, 2013 and 2012. Business unit 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, and equity, and the applicable interest income and expense.

Three Months Ended March 31,	Corporate and Institutional Services		Personal Financial Services		Treasury and Other		Total Consolidated	
($ In Millions)	2013	2012	2013	2012	2013	2012	2013	2012
Noninterest Income								
Trust, Investment and Other Servicing Fees	**$ 348.7**	$ 317.0	**$ 282.0**	$ 258.2	**$**	$	**$ 630.7**	$ 575.2
Foreign Exchange Trading Income	**58.2**	57.5	**1.3**	4.4			**59.5**	61.9
Other Noninterest Income	**40.2**	48.6	**17.2**	22.7	**2.7**	0.6	**60.1**	71.9
Net Interest Income (FTE)*	**64.1**	77.0	**147.8**	161.1	**21.8**	28.2	**233.7**	266.3
Revenue*	**511.2**	500.1	**448.3**	446.4	**24.5**	28.8	**984.0**	975.3
Provision for Credit Losses	**(2.7)**	0.5	**7.7**	4.5			**5.0**	5.0
Noninterest Expense	**398.7**	398.0	**301.8**	303.7	**28.4**	21.9	**728.9**	723.6
Income before Income Taxes*	**115.2**	101.6	**138.8**	138.2	**(3.9)**	6.9	**250.1**	246.7
Provision for Income Taxes*	**35.9**	33.6	**52.8**	52.3	**(2.6)**	(0.4)	**86.1**	85.5
Net Income	**$ 79.3**	$ 68.0	**$ 86.0**	$ 85.9	**$ (1.3)**	$ 7.3	**$ 164.0**	$ 161.2
Percentage of Consolidated Net Income	**48%**	42%	**52%**	53%	**N/M**	5%	**100%**	100%
Average Assets	**$ 51,316.8**	$ 49,662.2	**$ 22,861.4**	$ 23,563.9	**$ 17,391.1**	$ 21,902.0	**$ 91,569.3**	$ 95,128.1

* Stated on a fully taxable equivalent basis (FTE). Total consolidated includes FTE adjustments of $7.6 million for 2013 and $9.9 million for 2012.

Corporate and Institutional Services

C&IS net income for the quarter was $79.3 million, compared with $68.0 million in the prior year quarter, an increase of $11.3 million, or 17%.

C&IS Trust, Investment and Other Servicing Fees	Three Months Ended March 31,			
($ In Millions)	2013	2012	Change	
Custody and Fund Administration	**$ 223.8**	$ 209.8	$ 14.0	7%
Investment Management	**75.5**	61.8	13.7	22
Securities Lending	**22.3**	21.5	0.8	4
Other	**27.1**	23.9	3.2	13
Total	**$ 348.7**	$ 317.0	$ 31.7	10%

Custody and fund administration fees, the largest component of C&IS fees, increased 7%, primarily reflecting the favorable impact of equity markets on fees and new business. Investment management fees increased 22%, reflecting new business, the favorable impact of markets, and lower waived fees in money market mutual funds. Money market mutual fund fee waivers in C&IS, attributable to persistent low short-term interest rates, totaled $8.8 million in the current quarter, compared to $10.6 million in the prior year quarter. Securities lending revenue increased 4%, primarily reflecting higher spreads and loan volumes in the current quarter.

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Corporate and Institutional Services (continued)

Foreign exchange trading income totaled $58.2 million in the current quarter, an increase of 1% from $57.5 million in the prior year quarter, attributable to higher client volumes, partially offset by lower market volatility compared to the prior year quarter.

Other noninterest income totaled $40.2 million in the current quarter, a decrease of $8.4 million, or 17%, from $48.6 million in the prior year quarter. The current quarter includes a $6.6 million reduction in connection with the write-off of certain fee receivables.

Net interest income stated on an FTE basis was $64.1 million, down $12.9 million, or 17%, from $77.0 million in the prior year quarter, primarily reflecting a decrease in the net interest margin. The current quarter net interest margin equaled 0.59% as compared with 0.74% reported in the prior year quarter. The lower net interest margin is primarily due to lower yields on earning assets, partially offset by lower deposit rates as a result of the persistently low interest rate environment. Earning assets averaged $43.8 billion for the quarter, an increase of $2.1 billion, or 5%, from $41.7 billion in the prior year quarter. Earning assets were primarily comprised of interest-bearing deposits with banks and loans and leases. Funding sources were primarily comprised of non-U.S. custody related interest-bearing deposits.

A provision for credit losses of negative $2.7 million was recorded in the current quarter as compared to the prior year quarter s provision of $0.5 million, reflecting continued improvement in loan portfolio credit quality metrics.

Total C&IS noninterest expense, which includes the direct expense of the business unit, indirect expense allocations from NTGI and O&T for product and operating support, and indirect expense allocations for certain corporate support services, totaled $398.7 million, relatively unchanged from the prior year quarter.

Personal Financial Services

PFS net income for the current quarter was $86.0 million, up slightly from the prior year quarter. Noninterest income was $300.5 million, up $15.2 million, or 5%, from $285.3 million in the prior year quarter. Trust, investment and other servicing fees totaled $282.0 million in the current quarter, increasing $23.8 million, or 9%, from $258.2 million in the prior year quarter. The increased fees primarily reflect new business and the favorable impact of markets. PFS waived fees in money market mutual funds, attributable to persistent low short-term interest rates, totaled $13.4 million in the current quarter compared with $14.8 million in the prior year quarter. Other noninterest income totaled $17.2 million, down $5.5 million, or 24%, from $22.7 million in the prior year quarter, reflecting a $5.8 million reduction in connection with the write-off of certain fee receivables.

Net interest income stated on an FTE basis was $147.8 million, down $13.3 million, or 8%, from $161.1 million in the prior year quarter, primarily due to a lower net interest margin. The net interest margin decreased to 2.65% from 2.82% in the prior year quarter as a result of lower yields on loans and leases, partially offset by lower borrowing rates.

Personal Financial Services (continued)

A provision for credit losses of $7.7 million was recorded in the current quarter, compared to $4.5 million in the prior year quarter. While credit quality metrics for the overall portfolio have improved, the current quarter provision reflects continued weakness within the residential real estate class.

Total PFS noninterest expense, which includes the direct expense of the business unit, indirect expense allocations from NTGI and O&T for product and operating support, and indirect expense allocations for certain corporate support services, totaled $301.8 million, down slightly from the prior year 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 its principal subsidiary, The Northern Trust Company (Bank), and certain corporate-based expense, executive level compensation, and nonrecurring items not allocated to the business units. Other noninterest income in the current quarter totaled $2.7 million, compared with $0.6 million in the prior year quarter. The prior year quarter included charges of $3.1 million for credit-related other-than-temporary impairment of residential mortgage-backed securities and auction rate securities. Net interest income in the current quarter was $21.8 million, compared to $28.2 million in the prior year quarter, a decrease of $6.4 million, or 23%. The decrease primarily reflects lower yields on securities and a decline in average earning assets of $5.6 billion, or 26%, to $15.7 billion in the current quarter. Noninterest expense for the quarter totaled $28.4 million compared with $21.9 million in the prior year quarter, an increase of $6.5 million, or 30%, reflecting current quarter increases within various miscellaneous expense categories.

BALANCE SHEET

Total assets at March 31, 2013 were $93.2 billion and averaged $91.6 billion for the current quarter, compared with total assets of $91.6 billion at March 31, 2012 and average total assets of $95.1 billion in the prior year first quarter. Average balances are considered to be a better measure of balance sheet trends as period-end balances can be impacted on a short term basis by deposit and withdrawal activity involving large balances of short-term client funds. Loans and leases totaled $28.9 billion at March 31, 2013 and averaged $28.7 billion in the current quarter as compared to $29.2 billion at March 31, 2012 and a $28.6 billion average in the prior year quarter. Securities, including Federal Reserve and Federal Home Loan Bank stock and certain community development investments which are classified in other assets in the consolidated balance sheet, totaled $30.6 billion at March 31, 2013 and averaged $31.3 billion for the quarter, down 5% and unchanged, respectively, compared with $32.1 billion at March 31, 2012 and $31.3 billion on average in the prior year quarter. Federal funds sold and securities purchased under agreements to resell, interest-bearing deposits with banks, and Federal Reserve deposits and other interest-bearing assets in aggregate totaled $24.8 billion at March 31, 2013 and averaged $22.2 billion in the current quarter, up 16% and down 15%, respectively, from the prior year quarter. Interest-bearing deposits at March 31, 2013 totaled $56.9 billion and averaged $56.5 billion, compared to $54.0 billion at March 31, 2012 and a $56.7 billion average in the prior year quarter.

BALANCE SHEET (continued)

Noninterest-bearing deposits at March 31, 2013 totaled $18.9 billion and averaged $16.9 billion, compared to $19.9 billion at March 31, 2012 and a $19.5 billion average in the prior year quarter.

Total stockholders equity averaged $7.5 billion, up $0.3 million, or 5%, from the prior year quarter s average of $7.2 billion. The increase primarily reflects earnings, partially offset by dividend declarations and the repurchase of common stock pursuant to the Corporation s share buyback program. During the three months ended March 31, 2013, the Corporation repurchased 1,403,366 shares at a cost of $74.5 million ($53.08 average price per share). Under the Corporation s capital plan, which was reviewed without objection by the Federal Reserve in March of 2013, the Corporation may repurchase up to $400.0 million of common stock after March 31, 2013 through March 31, 2014. As of March 31, 2013, under the Corporation s previous stock buyback program, the Corporation was authorized by its Board of Directors to purchase up to 5.4 million additional shares. On April 16, 2013, the Board of Directors authorized a new stock buyback program that replaced the previous program and provides for the purchase of up to 12.0 million shares of the Corporation s common stock. The current stock buyback program has no fixed expiration date.

Northern Trust s risk-based capital ratios remained strong at March 31, 2013 and exceeded the minimum regulatory requirements established by U.S. banking regulators. The Corporation and the Bank each had capital ratios at March 31, 2013 that were above the level required for classification as a well capitalized institution. Shown below are the capital ratios of the Corporation and the Bank as of March 31, 2013 and December 31, 2012.

	March 31, 2013			December 31, 2012		
	Tier 1 Capital	Total Capital	Leverage Ratio	Tier 1 Capital	Total Capital	Leverage Ratio
Northern Trust Corporation	**13.3%**	**14.7%**	**8.4%**	12.8%	14.3%	8.2%
The Northern Trust Company	**12.2%**	**14.0%**	**7.7%**	11.9%	13.7%	7.6%
Minimum to Qualify as Well Capitalized	**6.0%**	**10.0%**	**5.0%**	6.0%	10.0%	5.0%

The following table provides the Corporation s ratios of tier 1 capital and tier 1 common equity to risk-weighted assets, as well as a reconciliation of tier 1 capital calculated in accordance with applicable regulatory requirements and GAAP to tier 1 common equity.

($ In Millions)	March 31, 2013	December 31, 2012
Ratios		
Tier 1 Capital	**13.3%**	12.8%
Tier 1 Common Equity	**12.8%**	12.4%
Tier 1 Capital	**$ 7,587.0**	$ 7,489.0
Less: Floating Rate Capital Securities	**268.7**	268.7
Tier 1 Common Equity	**$ 7,318.3**	$ 7,220.3

Northern Trust is providing the tier 1 common equity ratio, a non-GAAP financial measure, in addition to its capital ratios prepared in accordance with regulatory requirements and GAAP as it is a measure that Northern Trust and investors use to assess capital adequacy.

ASSET QUALITY

Securities Portfolio

Northern Trust maintains a high quality securities portfolio, with 84% of the combined available for sale, held to maturity, and trading account portfolios at March 31, 2013 composed of U.S. Treasury and government sponsored agency securities and triple-A rated corporate notes, asset-backed securities, supranational, sovereign and non-U.S. agency bonds, auction rate securities and obligations of states and political subdivisions. The remaining portfolio was composed 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, 4% was rated double-A, 2% was rated below double-A, and 10% 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).

Total unrealized losses within the investment securities portfolio at March 31, 2013 were $25.5 million as compared to $30.2 million at December 31, 2012. Of the total unrealized losses on securities at March 31, 2013, the largest component, totaling $7.9 million, was non-agency residential mortgage-backed securities. Non-agency residential mortgage-backed securities at March 31, 2013 had a total amortized cost and fair value of $78.7 million and $70.9 million, respectively.

Northern Trust has evaluated non-agency residential mortgage-backed securities, and all other securities with unrealized losses, for possible other-than-temporary impairment in accordance with GAAP and Northern Trust s security impairment review policy. There were no other-than-temporary impairment losses for the three months ended March 31, 2013. Credit related losses recognized in earnings on other-than-temporarily impaired securities totaled $3.1 million for the three months ended March 31, 2012.

Northern Trust is a participant in the repurchase agreement market. This provides 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 of securities purchased under agreements to resell. Securities sold under agreements to repurchase are held by the counterparty until the repurchase.

Eurozone Exposure

Northern Trust continues to closely monitor developments related to the European debt crisis. Northern Trust considers Ireland, Portugal, Italy, Greece, Spain and Cyprus to be those eurozone countries experiencing significant economic, fiscal and/or political strains. At March 31, 2013, Northern Trust s gross exposure to obligors in Ireland totaled approximately $885 million, less than 1% of Northern Trust s total consolidated assets. There was no exposure to obligors in Portugal, Italy, Greece, Spain or Cyprus and no exposure to sovereign debt securities as of March 31, 2013.

ASSET QUALITY (continued)

Of the total exposure to obligors in Ireland, $5 million was to banks and $880 million was to commercial and other borrowers, primarily funds domiciled in Ireland whose assets and investment activities are broadly diversified by investment strategy, issuer type, country of risk, and/or instrument type. Exposures to these borrowers in Ireland may be secured or unsecured, committed or uncommitted, but are typically for short periods of a year or less for foreign exchange, overdraft accommodations, and loans. Exposure levels at March 31, 2013 reflect Northern Trust s risk management policies and practices, which operate to limit exposures to higher risk European financial and sovereign entities.

Nonperforming Loans and Other Real Estate Owned

Nonperforming assets consist of nonperforming loans and Other Real Estate Owned (OREO). OREO is comprised of commercial and residential properties acquired in partial or total satisfaction of loans.

The following table provides the amounts of nonperforming loans, by segment and class, and of OREO that were outstanding at the dates shown, as well as the balance of loans that were 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.

($ In Millions)	March 31, 2013	December 31, 2012	March 31, 2012
Nonperforming Loans and Leases			
Commercial			
Commercial and Institutional	**$ 21.1**	$ 21.6	$ 28.6
Commercial Real Estate	**53.7**	56.4	69.8
Total Commercial	**74.8**	78.0	98.4
Personal			
Residential Real Estate	**173.6**	174.6	160.0
Private Client	**3.3**	2.2	3.7
Total Personal	**176.9**	176.8	163.7
Total Nonperforming Loans and Leases	**251.7**	254.8	262.1
Other Real Estate Owned	**10.5**	20.3	22.4
Total Nonperforming Assets	**$ 262.2**	$ 275.1	$ 284.5
90 Day Past Due Loans Still Accruing	**$ 11.1**	$ 19.0	$ 21.0
Nonperforming Loans and Leases to Total Loans and Leases	**0.87%**	0.86%	0.90%
Coverage of Loan and Lease Allowance to Nonperforming Loans and Leases	**1.2x**	1.2x	1.1x

Maintaining a low level of nonperforming assets is important to the ongoing success of a financial institution. In addition to the negative impact on both net interest income and credit losses, nonperforming assets also increase operating costs due to the expense associated with collection efforts. Nonperforming assets as of March 31, 2013, while down $12.9 million from the prior quarter, remain elevated from historical levels and continue to reflect the deterioration in overall economic conditions experienced since the onset of the economic downturn in 2008 and its effect on Northern Trust s loan portfolio, primarily within the residential real estate and commercial real estate loan classes.

ASSET QUALITY (continued)

Importantly, Northern Trust focuses its lending efforts on clients who are looking to utilize a full range of financial services with Northern Trust. Northern Trust s underwriting standards do not allow for the origination of loan types generally considered to be of high risk in nature, such as option ARM loans, subprime loans, loans with initial teaser rates, and loans with excessively high loan-to-value ratios. Residential real estate loans consist of conventional home mortgages and equity credit lines, which generally require a loan to collateral value 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 portfolio consists of commercial mortgages and construction, acquisition and development loans extended primarily to highly experienced developers and/or 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 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 probable losses that are believed to be inherent in the loan and lease portfolios, unfunded 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 considered 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, the value of collateral, 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.

ASSET QUALITY (continued)

A $5.0 million provision for credit losses was recorded in both the current and prior year quarters. The current quarter provision reflects continued weakness within the residential real estate loan class, partially offset by improvement within the commercial and institutional and commercial real estate loan classes. Net charge-offs totaled $8.7 million for the current quarter resulting from $12.6 million of charge-offs and $3.9 million of recoveries, compared to $5.8 million of net charge-offs in the prior year quarter resulting from $14.4 million of charge-offs and $8.6 million of recoveries. Nonperforming loans and leases decreased $10.4 million, or 4%, from the prior year quarter.

Note 6 to the consolidated financial statements includes a table that details the changes in the allowance for credit losses during the three months ended March 31, 2013 and 2012 due to charge-offs, recoveries, and the provision for credit losses.

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

	March 31, 2013		December 31, 2012		March 31, 2012	
($ In Millions)	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	**$ 34.8**	**%**	$ 32.5	%	$ 36.5	%
Allocated Inherent Allowance						
Commercial						
Commercial and Institutional	**74.4**	**25**	79.2	25	88.9	24
Commercial Real Estate	**77.0**	**10**	80.6	10	79.0	10
Lease Financing, net	**5.0**	**4**	5.5	4	3.1	4
Non-U.S.	**2.7**	**4**	3.4	4	3.7	4
Other		**2**		1		2
Total Commercial	**159.1**	**45**	168.7	44	174.7	44
Personal						
Residential Real Estate	**115.2**	**35**	110.9	35	100.2	36
Private Client	**14.7**	**20**	15.5	21	16.7	19
Other						1
Total Personal	**129.9**	**55**	126.4	56	116.9	56
Total Allocated Inherent Allowance	**$ 289.0**	**100%**	$ 295.1	100%	$ 291.6	100%
Total Allowance for Credit Losses	**323.8**		327.6		328.1	
Allowance Assigned to						
Loans and Leases	**$ 294.1**		$ 297.9		$ 295.5	
Unfunded Commitments and Standby Letters of Credit	**29.7**		29.7		32.6	
Total Allowance for Credit Losses	**$ 323.8**		$ 327.6		$ 328.1	
Allowance Assigned to Loans and Leases to Total Loans and Leases	**1.02%**		1.01%		1.01%	

MARKET RISK MANAGEMENT