

ALLERGAN INC  
Form 4  
March 31, 2006

**FORM 4**

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

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
**BALL F MICHEAL**

(Last) (First) (Middle)  
**2525 DUPONT DRIVE**  
  
(Street)

**IRVINE, CA 92612**

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
**ALLERGAN INC [(AGN)]**

3. Date of Earliest Transaction (Month/Day/Year)  
**03/29/2006**

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)  
**EVP, President, Pharmaceutical**

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
Common Stock	03/29/2006		M	52,108	A \$ 52.26	53,589	D
Common Stock	03/29/2006		S	2,022	D \$ 109	51,567	D
Common Stock	03/29/2006		S	1,000	D \$ 108.65	50,567	D
Common Stock	03/29/2006		S	400	D \$ 108.64	50,167	D
Common Stock	03/29/2006		S	100	D \$ 108.63	50,067	D

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Common Stock	03/29/2006	S	1,200	D	\$ 108.6	48,867	D
Common Stock	03/29/2006	S	1,100	D	\$ 108.59	47,767	D
Common Stock	03/29/2006	S	2,200	D	\$ 108.58	45,567	D
Common Stock	03/29/2006	S	1,100	D	\$ 108.57	44,467	D
Common Stock	03/29/2006	S	700	D	\$ 108.56	43,767	D
Common Stock	03/29/2006	S	2,186	D	\$ 108.55	41,581	D
Common Stock	03/29/2006	S	400	D	\$ 108.54	41,181	D
Common Stock	03/29/2006	S	1,000	D	\$ 108.53	40,181	D
Common Stock	03/29/2006	S	500	D	\$ 108.52	39,681	D
Common Stock	03/29/2006	S	1,000	D	\$ 108.51	38,681	D
Common Stock	03/29/2006	S	11,000	D	\$ 108.5	27,681	D
Common Stock	03/29/2006	S	300	D	\$ 108.46	27,381	D
Common Stock	03/29/2006	S	11,100	D	\$ 108.45	16,281	D
Common Stock	03/29/2006	S	600	D	\$ 108.4	15,681	D
Common Stock	03/29/2006	S	1,000	D	\$ 108.35	14,681	D
Common Stock	03/29/2006	S	500	D	\$ 108.31	14,181	D
Common Stock	03/29/2006	S	2,300	D	\$ 108.3	11,881	D
Common Stock	03/29/2006	S	5,500	D	\$ 108.25	6,381	D
Common Stock	03/29/2006	S	400	D	\$ 108.24	5,981	D
Common Stock	03/29/2006	S	800	D	\$ 108.2	5,181	D
						1,338.79	I

Common Stock				By 401(k) Trust
Common Stock	2,231.2	I		By ESOP Trust
Common Stock	2,735.93	I		By Living Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)		
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option (Right to Buy)	\$ 52.26	03/29/2006		M	52,108	<u>(1)</u>	01/23/2010	Common Stock	52,108

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BALL F MICHEAL 2525 DUPONT DRIVE IRVINE, CA 92612			EVP, President, Pharmaceutical	

## Signatures

By: Matthew J. Maletta,  
Attorney-in-Fact

03/31/2006

\*\*Signature of Reporting Person

Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Nonqualified stock option granted 1/24/00 under the issuer's incentive compensation plan, which option vested ratably over 4 years from the date of grant.

### Remarks:

Filing 1 of 3

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. m:2px;padding-right:2px;">

(\$ In Millions)

2015

2014

2013

2015 / 2014

2014 / 2013

Noninterest Income

Trust, Investment and Other Servicing Fees

\$  
2,980.5

\$  
2,832.8

\$  
2,609.8

5  
%

9  
%

Foreign Exchange Trading Income

261.8

210.1

244.4

25

(14

)

Other Noninterest Income

390.2

282.8

302.0

38

(6

)

Net Interest Income (Note)

1,095.4

1,034.9

965.6

6

7

Revenue (Note)

4,727.9

4,360.6

4,121.8

8

6

Provision for Credit Losses

(43.0

)

6.0

20.0

N/M

Explanation of Responses:

(70  
)  
Noninterest Expense  
3,280.6

3,135.0

2,993.8

5

5

Income before Income Taxes (Note)  
1,490.3

1,219.6

1,108.0

22

10

Provision for Income Taxes (Note)  
516.5

407.8

376.7

27

8

Net Income  
\$  
973.8

Explanation of Responses:

\$  
811.8

\$  
731.3

20  
%  
11  
%

Average Assets

\$  
110,715.1

\$  
104,083.5

\$  
94,857.7

6  
%  
10  
%

Note: Stated on an FTE basis. The consolidated figures include \$25.3 million, \$29.4 million, and \$32.5 million of FTE adjustments for 2015, 2014, and 2013, respectively.

#### Corporate & Institutional Services

C&IS is a leading global provider of asset servicing and related services to corporate and public retirement funds, foundations, endowments, fund managers, insurance companies, sovereign wealth funds, and other institutional investors around the globe. Asset servicing and related services encompass a full range of capabilities including but not limited to: global custody; fund administration; investment operations outsourcing; investment management; investment risk and analytical services; employee benefit services; securities lending; foreign exchange; treasury management; brokerage services; transition management services; banking and cash management. Client relationships are managed through the Bank and the Bank's and the Corporation's other subsidiaries, including support from locations in North America, Europe, the Middle East, and the Asia-Pacific region.

The following table summarizes the results of operations of C&IS for the years ended December 31, 2015, 2014, and 2013 on a management-reporting basis.

TABLE 15: C&IS RESULTS OF OPERATIONS

(\$ In Millions)	FOR THE YEAR ENDED			CHANGE	
	DECEMBER 31, 2015	2014	2013	2015 / 2014	2014 / 2013

Explanation of Responses:

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Noninterest Income						
Trust, Investment and Other Servicing Fees	\$1,696.9	\$1,584.0	\$1,443.8	7	% 10	%
Foreign Exchange Trading Income	249.4	200.4	238.8	24	(16	)
Other Noninterest Income	170.5	177.9	177.3	(4	)	—
Net Interest Income (Note)	414.4	310.0	275.9	34	12	
Revenue (Note)	2,531.2	2,272.3	2,135.8	11	6	
Provision for Credit Losses	(22.6	) 5.8	(3.4	) N/M	N/M	
Noninterest Expense	1,856.4	1,732.8	1,657.9	7	5	
Income before Income Taxes (Note)	697.4	533.7	481.3	31	11	
Provision for Income Taxes (Note)	212.8	149.4	145.6	42	3	
Net Income	\$484.6	\$384.3	\$335.7	26	% 14	%
Percentage of Consolidated Net Income	50	%47	%46	%		
Average Assets	\$42,313.9	\$59,462.9	\$53,308.2	(29	)%12	%

Note: Stated on an FTE basis.

The 26% increase in C&IS net income in 2015 primarily resulted from higher trust, investment and other servicing fees, net interest income, foreign exchange trading income and lower provision for credit losses, partially offset by higher noninterest expense. The 14% increase in C&IS net income in 2014 primarily reflected higher trust, investment and other



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

servicing fees and net interest income, partially offset by lower foreign exchange trading income and higher noninterest expense. In addition, 2015 and 2014 C&IS net income included the income tax benefit related to Northern Trust's decision to reinvest the pre-tax earnings of a foreign subsidiary indefinitely outside the United States of \$5.5 million and \$9.5 million, respectively.

## C&amp;IS Trust, Investment and Other Servicing Fees

C&IS trust, investment and other servicing fees are primarily attributable to services related to custody, fund administration, investment management, and securities lending. Custody and fund administration fees are driven primarily by values of client assets under custody/administration, 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.

Securities lending revenue is affected by market values; the demand for securities to be lent, which drives volumes; and the interest rate spread earned on the investment of cash deposited by investment firms as collateral for securities they have borrowed. The other services fee category in C&IS includes such products as benefit payments, investment risk and analytical services and other services. Revenue from these products is based generally on the volume of services provided or a fixed fee.

Provided below are the components of C&IS trust, investment and other servicing fees.

TABLE 16: C&amp;IS TRUST, INVESTMENT AND OTHER SERVICING FEES

(\$ In Millions)	FOR THE YEAR ENDED			CHANGE		
	DECEMBER 31, 2015	2014	2013	2015 / 2014	2014 / 2013	
Custody and Fund Administration	\$1,150.8	\$1,069.9	\$948.9	8	% 13	%
Investment Management	325.2	305.7	295.6	6	3	
Securities Lending	90.5	96.5	97.9	(6	) (1	)
Other	130.4	111.9	101.4	17	10	
Total Trust, Investment and Other Servicing Fees	\$1,696.9	\$1,584.0	\$1,443.8	7	% 10	%

## 2015 C&amp;IS TRUST, INVESTMENT, AND OTHER SERVICING FEES

n 68% Custody and Fund Administration

n 19% Investment Management

n 8% Other Services

n 5% Securities Lending

Custody and fund administration fees, the largest component of trust, investment and other servicing fees, increased \$80.9 million, or 8%, primarily reflecting new business and favorable equity markets, partially offset by the

unfavorable impact of movements in foreign exchange rates. Fees from investment management increased \$19.5 million, or 6%, primarily due to lower money market mutual fund fee waivers. Money market mutual fund fee waivers in C&IS totaled \$48.8 million and \$63.2 million in 2015 and 2014, respectively. Securities lending revenue decreased 6% due to changes in fee arrangements. C&IS other trust, investment and servicing fees increased \$18.5 million, or 17%, primarily related to higher sub-advisory fees. C&IS trust, investment, and other servicing fees totaled \$1.58 billion in 2014, an increase of \$140.2 million or 10%, from \$1.44 billion in 2013, primarily due to increases in custody and fund administration fees driven by new business and the favorable impacts of equity markets and movements in foreign exchange rates.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Provided below is a breakdown of the C&IS assets under custody and under management.

TABLE 17: C&amp;IS ASSETS UNDER CUSTODY

(\$ In Billions)	2015	DECEMBER 31,		CHANGE		
		2014	2013	2015 / 2014	2014 / 2013	
North America	\$2,999.0	\$2,920.3	\$2,705.4	3	% 8	%
Europe, Middle East, and Africa	1,971.1	1,939.3	1,823.4	2	6	
Asia Pacific	492.0	477.3	448.6	3	6	
Securities Lending	103.7	116.2	102.3	(11	) 14	
Total Assets Under Custody	\$5,565.8	\$5,453.1	\$5,079.7	2	% 7	%

## 2015 C&amp;IS ASSETS UNDER CUSTODY

n	54% North America
n	35% Europe, Middle East, and Africa
n	9% Asia Pacific
n	2% Securities Lending

TABLE 18: C&amp;IS ASSETS UNDER MANAGEMENT

(\$ In Billions)	2015	DECEMBER 31,		CHANGE		
		2014	2013	2015 / 2014	2014 / 2013	
North America	\$410.4	\$415.5	\$382.2	(1	) % 9	%
Europe, Middle East, and Africa	102.0	115.6	114.0	(12	) 1	
Asia Pacific	31.9	62.3	64.2	(49	) (3	)
Securities Lending	103.7	116.2	102.3	(11	) 14	
Total Assets Under Management	\$648.0	\$709.6	\$662.7	(9	) % 7	%

## 2015 C&amp;IS ASSETS UNDER MANAGEMENT

n	63% North America
n	16% Europe, Middle East, and Africa
n	5% Asia Pacific
n	16% Securities Lending

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## 2015 C&amp;IS ASSETS UNDER MANAGEMENT BY INVESTMENT TYPE

n	53% Equities
n	13% Fixed Income Securities
n	18% Cash and Other Assets
n	16% Securities Lending Collateral

C&IS assets under custody were \$5.57 trillion at December 31, 2015, 2% higher than \$5.45 trillion at December 31, 2014. Assets under management decreased 9% to \$648.0 billion at December 31, 2015, from \$709.6 billion at December 31, 2014. Cash and other assets deposited by investment firms as collateral for securities borrowed from custody clients are managed by Northern Trust and are included in assets under custody and under management. This securities lending collateral totaled \$103.7 billion and \$116.2 billion at December 31, 2015 and 2014, respectively.

## C&amp;IS Foreign Exchange Trading Income

Foreign exchange trading income totaled \$249.4 million in 2015, a \$49.0 million, or 24%, increase from \$200.4 million in 2014. The increase is attributable to higher currency market volatility and trading volumes in the current year. Foreign exchange trading income in 2014 of \$200.4 million decreased \$38.4 million, or 16%, from \$238.8 million in 2013, due to lower currency market volatility and trading volumes as compared to 2013.

## C&amp;IS Other Noninterest Income

Other noninterest income for 2015 totaled \$170.5 million, down \$7.4 million, or 4%, from \$177.9 million in 2014, primarily due to decreases within various categories of other operating income, partially offset by higher security commissions and trading income. Other income in 2015 includes a \$25.9 million net gain on the sale of certain loans and leases, offset by a \$27.0 million fair value adjustment on leases classified as held for sale as of December 31, 2015, each of which is related to the decision to exit a portion of a non-strategic loan and lease portfolio. Other noninterest income in 2013 of \$177.3 million included a \$6.6 million reduction in connection with the write-off of certain fee receivables.

## C&amp;IS Net Interest Income

Net interest income increased \$104.4 million, or 34%, in 2015 to \$414.4 million from \$310.0 million in 2014. 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 compared to the prior-year period were partially 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. Also impacting the net interest income in 2015 was a \$17.8 million impairment of the residual value of certain aircraft under leveraged lease agreements. As a result, the net interest margin increased to 1.16% from 0.58% in the prior year, while average earning assets totaled \$35.7 billion, a decrease of \$17.3 billion, or 33%, from \$53.0 billion in the prior year. The earning assets that remain consist primarily of loans and leases and intercompany assets. Funding sources were primarily comprised of non-U.S. custody-related interest-bearing deposits, which averaged \$46.0 billion in 2015, up from \$45.5 billion in 2014. Net interest income increased \$34.1 million, or 12%, in 2014 to \$310.0 million from \$275.9 million in 2013, due to higher levels of average earning assets, partially offset by a decline in the net interest margin.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## C&amp;IS Provision for Credit Losses

The provision for credit losses in 2015 was a credit of \$22.6 million, primarily reflecting improved credit quality across the portfolio coupled with the adoption of a change in estimation methodology for inherent losses. The change in methodology resulted in a decrease in the estimate for the allowance for credit losses for the commercial and institutional loan portfolio, partially offset by an increase in the allowance for undrawn loan commitments and standby letters of credit. The provision for credit losses was \$5.8 million for 2014, primarily reflecting allowances established as a result of higher commercial and institutional loan volumes, partially offset by continued improvement in the credit quality of commercial and institutional loans. The provision for credit losses in 2013 was a credit of \$3.4 million, reflecting improvement in loan portfolio credit quality as compared to the preceding year. For further discussion of the allowance and provision for credit losses refer to the "Asset Quality" section.

## C&amp;IS Noninterest Expense

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 \$1.86 billion in 2015, an increase of \$123.6 million, or 7%, from \$1.73 billion in 2014. The increase was due to higher indirect expense allocations, primarily attributable to \$36.6 million of the charge related to voluntary cash contributions to certain constant dollar NAV funds allocated to C&IS, as well as higher outside services and compensation expense in 2015. Noninterest expense for 2014 increased \$74.9 million, or 5%, from \$1.66 billion in 2013. Results for 2014 included \$24.8 million of charges relating to severance activities and reductions in office space and write-offs of replaced or eliminated software, while the 2013 results included a \$19.2 million legal settlement charge.

## Wealth Management

Wealth Management focuses on high-net-worth individuals and families, business owners, executives, professionals, retirees, and established privately-held businesses in its target markets. The business also includes the Global Family Office, which provides customized services to meet the complex financial needs of individuals and family offices in the United States and throughout the world with assets typically exceeding \$200 million. In supporting these targeted segments, Wealth Management provides trust, investment management, custody, and philanthropic services; financial consulting; guardianship and estate administration; family business consulting; family financial education; brokerage services; and private and business banking. Wealth Management is one of the largest providers of advisory services in the United States with \$506.3 billion of assets under custody and \$227.3 billion of assets under management at December 31, 2015. Wealth Management services are delivered by multidisciplinary teams through a network of offices in 18 U.S. states and Washington, D.C., as well as offices in London, Guernsey, and Abu Dhabi.

The following table summarizes the results of operations of Wealth Management for the years ended December 31, 2015, 2014, and 2013 on a management-reporting basis.

TABLE 19: WEALTH MANAGEMENT RESULTS OF OPERATIONS

(\$ In Millions)	FOR THE YEAR ENDED			CHANGE	
	DECEMBER 31, 2015	2014	2013	2015 / 2014	2014 / 2013
Noninterest Income					
Trust, Investment and Other Servicing Fees	\$1,283.6	\$1,248.8	\$1,166.0	3	%7
Foreign Exchange Trading Income	12.4	9.7	5.6	28	73
Other Noninterest Income	111.8	98.3	116.7	14	(16)
Net Interest Income (Note)	568.1	536.1	557.7	6	(4)

Explanation of Responses:

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Revenue (Note)	1,975.9	1,892.9	1,846.0	4	3	
Provision for Credit Losses	(20.4	) 0.2	23.4	N/M	(99	)
Noninterest Expense	1,291.9	1,268.7	1,215.0	2	4	
Income before Income Taxes (Note)	704.4	624.0	607.6	13	3	
Provision for Income Taxes (Note)	264.7	234.8	229.2	13	2	
Net Income	\$439.7	\$389.2	\$378.4	13	%3	%
Percentage of Consolidated Net Income	45	%48	%52	%		
Average Assets	\$25,048.7	\$23,629.3	\$22,887.6	6	%3	%

Note: Stated on an FTE basis.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Wealth Management net income increased 13% in 2015, primarily reflecting higher trust, investment and other servicing fees, net interest income and lower provision for credit losses, partially offset higher noninterest expense. The 3% increase in Wealth Management net income in 2014 from 2013 is primarily attributable to increased trust, investment and other servicing fees, partially offset by lower other noninterest and net interest income and higher noninterest expense.

## Wealth Management Trust, Investment and Other Servicing Fees

Provided below is a summary of Wealth Management trust, investment and other servicing fees and assets under custody and under management.

TABLE 20: WEALTH MANAGEMENT TRUST, INVESTMENT AND OTHER SERVICING FEES

(\$ In Millions)	FOR THE YEAR ENDED			CHANGE		
	DECEMBER 31, 2015	2014	2013	2015 / 2014	2014 / 2013	
Central	\$514.3	\$509.1	\$470.0	1	% 8	%
East	332.7	325.3	303.4	2	7	
West	267.7	262.5	241.5	2	9	
Global Family Office	168.9	151.9	151.1	11	1	
Total Trust, Investment and Other Servicing Fees	\$1,283.6	\$1,248.8	\$1,166.0	3	% 7	%

## 2015 WEALTH MANAGEMENT FEES

n	40% Central
n	26% East
n	21% West
n	13% Global Family Office

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TABLE 21: WEALTH MANAGEMENT ASSETS UNDER CUSTODY

(\$ In Billions)	DECEMBER 31,			CHANGE		
	2015	2014	2013	2015 / 2014	2014 / 2013	
Global Family Office	\$321.4	\$324.0	\$314.9	(1)	)%3	%
Central	79.5	85.7	79.4	(7)	) 8	
East	58.5	58.5	57.3	—	2	
West	46.9	47.5	44.4	(1)	) 7	
Total Assets Under Custody	\$506.3	\$515.7	\$496.0	(2)	)%4	%

## 2015 WEALTH MANAGEMENT ASSETS UNDER CUSTODY

n 63% Global Family Office

n 16% Central

n 12% East

n 9% West

TABLE 22: WEALTH MANAGEMENT ASSETS UNDER MANAGEMENT

(\$ In Billions)	DECEMBER 31,			CHANGE		
	2015	2014	2013	2015 / 2014	2014 / 2013	
Central	\$81.8	\$83.4	\$86.2	(2)	)%(3	)%
Global Family Office	61.9	57.0	53.9	9	6	
East	47.4	47.4	47.2	—	—	
West	36.2	36.7	34.5	(1)	) 6	
Total Assets Under Management	\$227.3	\$224.5	\$221.8	1	% 1	%

## 2015 WEALTH MANAGEMENT ASSETS UNDER MANAGEMENT

n 36% Central

n 27% Global Family Office

n 21% East

n 16% West

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## 2015 WEALTH MANAGEMENT ASSETS UNDER MANAGEMENT BY INVESTMENT TYPE

n	46% Equities
n	28% Fixed Income Securities
n	26% Cash and Other Assets

The Wealth Management regions shown above are comprised of the following: Central includes Illinois, Michigan, Minnesota, Missouri, Ohio and Wisconsin; East includes Connecticut, Delaware, Florida, Georgia, Massachusetts, New York and Washington, D.C.; West includes Arizona, California, Colorado, Nevada, Texas and Washington. Global Family Office provides specialized asset management, investment consulting, global custody, fiduciary, and private banking services to ultra-wealthy domestic and international clients.

Wealth Management fee income is calculated primarily based on market values. Wealth Management trust, investment and other servicing fees were \$1.28 billion in 2015, up \$34.8 million, or 3%, from \$1.25 billion in 2014, which in turn was up \$82.8 million, or 7%, from \$1.17 billion in 2013. The results in 2015 benefited from new business, higher equity markets and lower money market mutual fund fee waivers. Wealth Management money market mutual fund fee waivers totaled \$60.4 million and \$66.6 million in 2015 and 2014, respectively. The 7% increase in trust, investment and other servicing fees in 2014 compared to 2013 was attributable to higher equity markets and new business, partially offset by higher money market mutual fund fee waivers.

At December 31, 2015, assets under custody in Wealth Management were \$506.3 billion compared with \$515.7 billion at December 31, 2014. Assets under management were \$227.3 billion at December 31, 2015 compared to \$224.5 billion at the previous year end.

**Wealth Management Foreign Exchange Trading Income**

Foreign exchange trading income totaled \$12.4 million in 2015, \$9.7 million in 2014 and \$5.6 million in 2013, primarily reflecting increased client activity.

**Wealth Management Other Noninterest Income**

Other noninterest income for 2015 totaled \$111.8 million, an increase of \$13.5 million, or 14%, from \$98.3 million in 2014, primarily reflecting higher security commissions and trading income and increases within various categories of other operating income. Other noninterest income in 2014 increased \$18.4 million, or 16%, as compared to 2013. Noninterest income in 2013 included the \$32.6 million pre-tax gain on the sale of an office building property and a \$5.8 million reduction in connection with the write-off of certain fee receivables.

**Wealth Management Net Interest Income**

Net interest income was \$568.1 million for 2015, up \$32.0 million, or 6%, from \$536.1 million in 2014, primarily reflecting higher levels of average earning assets, partially offset by a decline in the net interest margin. The Wealth Management net interest margin in 2015 decreased to 2.29% from 2.32% in 2014, resulting from lower yields on earning assets, partially offset by a lower cost of interest-related funds. Average earning assets totaled \$24.8 billion in the current year, a 7% increase from \$23.1 billion in the prior year. Net interest income in 2014 declined \$21.6 million, or 4%, from 2013 and the net interest margin in 2014 of 2.32% was down from the 2013 margin of 2.46%. The lower net interest margin in 2014 as compared to 2013 was attributable to lower yields on earning assets, partially offset by lower deposit rates. Earning assets and funding sources in 2015, 2014 and 2013 were primarily comprised of loans and domestic interest-bearing deposits.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Wealth Management Provision for Credit Losses

The provision for credit losses was a credit of \$20.4 million for 2015, compared with a provision of \$0.2 million in 2014, and \$23.4 million in 2013. The 2015 provision primarily reflected improved credit quality of commercial real estate and residential real estate loan classes coupled with the adoption of a change in estimation methodology for inherent losses. The 2014 provision reflected improvement in the credit quality of the commercial and institutional and commercial real estate loan classes as compared to 2013. For further discussion of the allowance and provision for credit losses refer to the "Asset Quality" section.

## Wealth Management Noninterest Expense

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 \$1.29 billion in 2015, an increase of \$23.2 million, or 2%, from \$1.27 billion in the prior year. The increase primarily reflected higher indirect allocations, primarily attributable to \$9.2 million of the charge related to voluntary cash contributions to certain constant dollar NAV funds allocated to Wealth Management, as well as increased employee benefits expense, partially offset by lower expense for outside services. Noninterest expense in 2014 included \$18.1 million of charges relating to severance activities and reductions in office space and write-offs of replaced or eliminated software.

## 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. Treasury and Other also includes certain corporate-based expense, executive level compensation and nonrecurring items not allocated to the reporting segments.

The following table summarizes the results of operations of Treasury and Other for the years ended December 31, 2015, 2014, and 2013 on a management-reporting basis.

TABLE 23: TREASURY AND OTHER RESULTS OF OPERATIONS

	FOR THE YEAR ENDED			CHANGE		
	DECEMBER 31,			2015 / 2014	2014 / 2013	
(\$ In Millions)	2015	2014	2013			
Noninterest Income	\$107.9	\$6.6	\$8.0	N/M	(17 )%	
Net Interest Income (Note)	112.9	188.8	132.0	(40 )	43	
Revenue (Note)	220.8	195.4	140.0	13	40	
Noninterest Expense	132.3	133.5	120.9	(1 )	10	
Income before Income Taxes (Note)	88.5	61.9	19.1	43	224	
Provision for Income Taxes (Note)	39.0	23.6	1.9	65	N/M	
Net Income	\$49.5	\$38.3	\$17.2	29	% 123	%
Percentage of Consolidated Net Income	5	% 5	% 2	%		
Average Assets	\$43,352.5	\$20,991.3	\$18,661.9	107	% 12	%

Note: Stated on an FTE basis.

Treasury and Other noninterest income in 2015 was \$107.9 million compared to \$6.6 million in 2014. The increase reflects the \$99.9 million gain on the sale of 1.0 million Visa Class B common shares recognized by the Corporation during 2015. Excluding the gain, Treasury and Other noninterest income increased slightly compared to 2014. Noninterest income in 2014 decreased 17% from 2013, and included \$4.2 million of OTTI charges related to certain CRA-eligible securities.

Treasury and Other net interest income in 2015 was \$112.9 million, down \$75.9 million, or 40%, from \$188.8 million in 2014. The decrease reflected 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 partially due to a change in presentation, as certain assets were transferred to Treasury and Other from C&IS in the first quarter of 2015 and the related internal funds pricing method was updated. Average earning assets in 2015 increased \$22.0 billion to \$41.8 billion from \$19.8 billion in the prior year. Net interest income in 2014 increased 43% from 2013, reflecting higher internal yields on funds provided to reporting segments in 2014.

Treasury and Other noninterest expense in 2015 equaled \$132.3 million, down slightly from \$133.5 million in 2014. The 2014 expense included \$4.6 million of severance-related charges. Excluding these charges, the \$3.4 million, or 3%, increase is primarily attributable to higher general overhead costs, partially offset by higher indirect expense allocations to C&IS and Wealth Management.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Asset Management

Asset Management, through the Corporation's various subsidiaries, supports the C&IS and Wealth Management reporting segments by providing a broad range of asset management and related services and other products to clients around the world. Investment solutions are delivered through separately managed accounts, bank common and collective funds, registered investment companies, exchange traded funds, non-U.S. collective investment funds, and unregistered private investment funds. Asset Management's capabilities include active, passive and engineered equity; active and passive fixed income; cash management; alternative asset classes (such as private equity and hedge funds of funds); and multi-manager advisory services and products. Asset Management's activities also include overlay services and other risk management services. Asset Management operates internationally through subsidiaries and distribution arrangements and its revenue and expense are allocated fully to C&IS and Wealth Management. At December 31, 2015, Northern Trust managed \$875.3 billion in assets for personal and institutional clients, including \$648.0 billion for C&IS clients and \$227.3 billion for Wealth Management clients. The following table presents consolidated assets under management as of December 31, 2015, 2014 and 2013 by investment type.

TABLE 24: CONSOLIDATED ASSETS UNDER MANAGEMENT BY INVESTMENT TYPE

(\$ In Billions)	DECEMBER 31,			CHANGE	
	2015	2014	2013	2015 / 2014	2014 / 2013
Equities	\$446.6	\$485.7	\$477.2	(8 )	%2 %
Fixed Income Securities	147.1	162.2	146.7	(9 )	11
Cash and Other Assets	177.7	169.9	158.2	5	7
Securities Lending Collateral	103.9	116.3	102.4	(11 )	14
Total Assets under Management	\$875.3	\$934.1	\$884.5	(6 )	%6 %

Assets under management decreased \$58.8 billion, or 6%, from \$934.1 billion at year-end 2014. The decrease primarily reflected net outflows, including equity outflows from certain sovereign wealth fund clients and a significant outflow from one fixed income mandate, coupled with the unfavorable impact from equity markets and foreign currency translation. The following table presents activity in consolidated assets under management by investment type during the year-ended December 31, 2015.

TABLE 25: ACTIVITY IN CONSOLIDATED ASSETS UNDER MANAGEMENT BY INVESTMENT TYPE

(\$ In Billions)	
Balance as of December 31, 2014	\$934.1
Inflows by Investment Type	
Equity	116.2
Fixed Income	41.7
Cash & Other Assets	281.0
Securities Lending Collateral	28.8
Total Inflows	467.7
Outflows by Investment Type	
Equity	(143.0 )
Fixed Income	(54.6 )
Cash & Other Assets	(273.3 )
Securities Lending Collateral	(41.2 )

Total Outflows	(512.1 )
Net Outflows	(44.4 )
Market Performance, Currency & Other	(14.4 )
Balance as of December 31, 2015	\$875.3

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## ASSET QUALITY

## Securities Portfolio

The following table presents the book values of Northern Trust's held to maturity and available for sale investment securities by type as of December 31, 2015, 2014 and 2013.

TABLE 26: SECURITIES HELD TO MATURITY AND AVAILABLE FOR SALE

(\$ In Millions)	DECEMBER 31,		
	2015	2014	2013
Securities Held to Maturity			
U.S. Government	\$26.0	\$—	\$—
Obligations of States and Political Subdivisions	89.2	121.9	225.2
Government Sponsored Agency	9.9	18.4	35.9
Other	5,123.2	4,030.5	2,064.7
Total Securities Held to Maturity	\$5,248.3	\$4,170.8	\$2,325.8
Securities Available for Sale			
U.S. Government	\$6,178.3	\$4,506.9	\$1,917.9
Obligations of States and Political Subdivisions	36.4	4.6	4.6
Government Sponsored Agency	16,366.8	16,389.2	17,528.0
Asset-Backed	2,500.1	2,327.7	2,439.9
Auction Rate	17.1	18.1	98.9
Other	7,219.2	6,312.0	6,403.5
Total Securities Available for Sale	\$32,317.9	\$29,558.5	\$28,392.8
Average Total Securities	\$37,407.9	\$33,445.9	\$30,819.9
Total Securities at Year-End	\$37,567.4	\$33,734.0	\$30,720.3

Northern Trust maintains a high quality securities portfolio, with 88% of the combined available for sale, held to maturity, and trading account portfolios at December 31, 2015 composed of U.S. Treasury and government sponsored agency securities and triple-A rated corporate notes, covered bonds, asset-backed securities, sub-sovereign, supranational, sovereign & non-U.S. agency bonds, auction rate securities, commercial mortgage-backed and obligations of states and political subdivisions. The remainder of the 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, 7% were rated double-A, 3% were rated below double-A, and 2% were 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).

At December 31, 2015, 36% of corporate debt was rated triple-A, 29% was rated double-A, and 35% was rated below double-A. Securities classified as "other asset-backed" at December 31, 2015 had average lives of less than 5 years, and 100% were rated triple-A.

Unrealized losses within the investment securities portfolio at December 31, 2015 were \$140.5 million as compared to \$87.6 million at December 31, 2014, primarily reflecting widened credit spreads and 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. There were \$4.2 million of losses recognized in 2014 in connection with the write-down of securities determined to be OTTI. There were no OTTI losses recognized in 2015 or 2013.

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 any 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 the repurchase.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Loans and Leases

The following table presents the amounts outstanding of loans and leases by segment and class as of December 31, 2015 and the preceding four year-ends.

TABLE 27: COMPOSITION OF LOAN PORTFOLIO

(\$ In Millions)	DECEMBER 31,				
	2015	2014	2013	2012	2011
Commercial					
Commercial and Institutional	\$9,431.5	\$8,381.9	\$7,375.8	\$7,468.5	\$6,918.7
Commercial Real Estate	3,848.8	3,333.3	2,955.8	2,859.8	2,981.7
Lease Financing, net	544.4	916.3	975.1	1,035.0	978.8
Non-U.S.	1,137.7	1,530.6	954.7	1,192.3	1,057.5
Other	194.1	191.5	358.6	341.6	417.6
Total Commercial	\$15,156.5	\$14,353.6	\$12,620.0	\$12,897.2	\$12,354.3
Personal					
Residential Real Estate	\$8,850.7	\$9,782.6	\$10,271.3	\$10,375.2	\$10,708.9
Private Client	9,136.4	7,466.9	6,445.6	6,130.1	5,651.4
Other	37.3	37.1	48.6	102.0	349.3
Total Personal	\$18,024.4	\$17,286.6	\$16,765.5	\$16,607.3	\$16,709.6
Total Loans and Leases	\$33,180.9	\$31,640.2	\$29,385.5	\$29,504.5	\$29,063.9

## Residential Real Estate

The residential real estate loan portfolio is primarily composed of mortgages and home equity credit lines provided as an accommodation to clients. Residential real estate loans totaled \$8.9 billion at December 31, 2015, or 28% of total U.S. loans, compared with \$9.8 billion, or 32% of total U.S. loans, at December 31, 2014. All residential real estate loans are underwritten utilizing Northern Trust's credit policies, which do not support 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 traditional first lien mortgages and equity credit lines that generally require a loan-to-collateral value of no more than 65% to 75% at inception. Revaluations of supporting collateral for residential real estate loans are obtained upon refinancing or default or when otherwise considered warranted. Residential real estate collateral revaluations are performed by independent third parties.

Of the total \$8.9 billion in residential real estate loans at December 31, 2015, \$2.3 billion were in Florida, \$2.0 billion were in the greater Chicago area, and \$1.5 billion were in California, with the remainder distributed throughout the other geographic regions within the United States served by Northern Trust. Legally binding commitments to extend residential real estate credit, which are primarily equity credit lines, totaled \$1.4 billion and \$1.6 billion at December 31, 2015 and 2014, respectively.

## Commercial Real Estate

In managing its credit exposure, management has defined a commercial real estate loan as one where: (1) the borrower's principal business activity is the acquisition or the development of real estate for commercial purposes; (2) the principal collateral is real estate held for commercial purposes, and loan repayment is expected to flow from the operation of the property; or (3) the loan repayment is expected to flow from the sale or refinance of real estate as a normal and ongoing part of the business. Unsecured lines of credit to firms or individuals engaged in commercial real estate endeavors are included without regard to the use of loan proceeds. 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 also is commonly required.

Commercial mortgage financing is provided for the acquisition or refinancing of income-producing properties. Cash flows from the properties generally are sufficient to amortize the loan. These loans are primarily located in the Illinois, Florida, California, Texas, and Arizona markets. Construction, acquisition and development loans provide financing for commercial real estate prior to rental income stabilization. The intent is generally that the borrower will sell the project or refinance the loan through a commercial mortgage with Northern Trust or another financial institution upon completion.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The table below provides additional detail regarding commercial real estate loan types:

TABLE 28: COMMERCIAL REAL ESTATE LOANS

(\$ In Millions)	DECEMBER 31,	
	2015	2014
Commercial Mortgages:		
Apartment/Multi-family	\$ 770.1	\$ 728.7
Office	830.4	735.5
Retail	683.3	854.1
Industrial / Warehouse	310.5	323.7
Other	442.3	125.7
Total Commercial Mortgages	3,036.6	2,767.7
Construction, Acquisition and Development Loans	392.8	256.8
Single Family Investment	147.4	121.3
Other Commercial Real Estate Related	272.0	187.5
Total Commercial Real Estate Loans	\$ 3,848.8	\$ 3,333.3

At December 31, 2015, legally binding commitments to extend credit and standby letters of credit to commercial real estate borrowers totaled \$750.9 million and \$26.6 million, respectively. At December 31, 2014, legally binding commitments and standby letters of credit totaled \$556.1 million and \$110.7 million, respectively.

## Nonperforming Assets and 90 Days Past Due Loans

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. Loans that are delinquent 90 days or more and still accruing interest can fluctuate widely at any reporting period based on the timing of cash collections, renegotiations and renewals. The following table presents nonperforming assets and loans that were delinquent 90 days or more and still accruing at December 31, 2015 and each of the prior four year-ends.

TABLE 29: NONPERFORMING ASSETS

(\$ In Millions)	DECEMBER 31,					
	2015	2014	2013	2012	2011	
Nonperforming Loans and Leases						
Commercial						
Commercial and Institutional	\$42.9	\$15.0	\$23.1	\$21.6	\$31.3	
Commercial Real Estate	16.7	37.1	49.2	56.4	79.5	
Total Commercial	59.6	52.1	72.3	78.0	110.8	
Personal						
Residential Real Estate	\$120.1	\$162.4	\$189.1	\$174.6	\$177.6	
Private Client	0.4	1.2	1.4	2.2	5.3	
Total Personal	120.5	163.6	190.5	176.8	182.9	
Total Nonperforming Loans and Leases	180.1	215.7	262.8	254.8	293.7	
Other Real Estate Owned	8.2	16.6	11.9	20.3	21.2	
Total Nonperforming Assets	\$188.3	\$232.3	\$274.7	\$275.1	\$314.9	
90 Day Past Due Loans Still Accruing	\$7.1	\$22.7	\$16.4	\$19.0	\$13.1	
Nonperforming Loans and Leases to Total Loans and Leases	0.54	%0.68	%0.89	%0.86	%1.01	%

Explanation of Responses:

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Allowance for Credit Losses Assigned to Loans and Leases to Nonperforming Loans and Leases	1.1x	1.2x	1.1x	1.2x	1.0x
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Nonperforming assets of \$188.3 million as of December 31, 2015, decreased \$44.0 million, or 19%, reflecting improved credit quality across the portfolio. The December 31, 2015 loan portfolio reflected a reclassification of a non-performing loan from the residential real estate loan class to the commercial and institutional loan class due to a change in the obligor as a result of restructuring the loan. 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

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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.

## Allowance and Provision for Credit Losses

TABLE 30: CHANGES IN THE ALLOWANCE FOR CREDIT LOSSES

(\$ In Millions)	2015	2014	2013
Balance at January 1	\$295.9	\$307.9	\$327.6
Charge-Offs	(30.7	)(36.1	)(59.3
Recoveries	11.2	18.1	19.6
Net Charge-Offs	(19.5	)(18.0	)(39.7
Provision for Credit Losses	(43.0	)6.0	20.0
Effects of Foreign Exchange Rates	(0.1	)—	—
Balance at December 31	\$233.3	\$295.9	\$307.9

The provision for credit losses is the charge to current period earnings that is determined by management, through a disciplined credit review process, to be the amount needed to maintain the allowance for credit losses at an appropriate level to absorb probable credit losses that have been identified with specific borrower relationships (specific loss component) and for probable losses that are believed to be inherent in the loan and lease portfolios, undrawn commitments, and standby letters of credit (inherent loss component).

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following table shows the specific portion of the allowance and the allocated inherent portion of the allowance and its components by loan category at December 31, 2015, and at each of the prior four year-ends.

TABLE 31: ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES

(\$ In Millions)	DECEMBER 31, 2015		2014		2013		2012		2011	
	ALLOWANCE AMOUNT	PERCENT OF LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS	ALLOWANCE AMOUNT	PERCENT OF LOANS
		TOTAL LOANS		TOTAL LOANS		TOTAL LOANS		TOTAL LOANS		TOTAL LOANS
Specific Allowance	\$3.1	—	%\$21.1	—	%\$24.9	—	%\$32.5	—	%\$47.3	—
Allocated Inherent Allowance										
Commercial Commercial and Institutional	40.4	28	73.0	26	67.5	25	79.2	25	90.0	24
Commercial Real Estate	69.5	12	69.4	10	71.5	10	80.6	10	77.1	10
Lease Financing, net	1.9	2	3.6	3	4.2	3	5.5	4	1.8	3
Non-U.S.	—	3	3.3	5	2.1	3	3.4	4	4.7	4
Other	—	1	—	1	—	2	—	1	—	1
Total Commercial	111.8	46	149.3	45	145.3	43	168.7	44	173.6	42
Personal Residential Real Estate	96.2	27	107.7	31	118.7	35	110.9	35	92.0	37
Private Client	19.7	27	17.8	24	19.0	22	15.5	21	16.0	20
Other	2.5	—	—	—	—	—	—	—	—	1
Total Personal	118.4	54	125.5	55	137.7	57	126.4	56	108.0	58
Total Allocated Inherent Allowance	\$230.2	100	%\$274.8	100	%\$283.0	100	%\$295.1	100	%\$281.6	100
Total Allowance for Credit Losses	\$233.3	100	%\$295.9	100	%\$307.9	100	%\$327.6	100	%\$328.9	100
Allowance Assigned to:										
Loans and Leases	\$193.8		\$267.0		\$278.1		\$297.9		\$294.8	

Explanation of Responses:



Undrawn Commitments and Standby Letters of Credit Total	39.5	28.9	29.8	29.7	34.1
Allowance for \$233.3 Credit Losses Allowance Assigned to Loans and Leases to Total Loans and Leases	0.58 %	0.84 %	0.95 %	1.01 %	1.01 %
		\$295.9	\$307.9	\$327.6	\$328.9

**Specific Component of the Allowance:** 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.

At December 31, 2015, the specific allowance component amounted to \$3.1 million compared with \$21.1 million at the end of 2014. The \$18.0 million decrease is primarily attributable to charge-offs and restructurings and pay-offs as a result of improvement in commercial and institutional, commercial real estate and residential real estate loans.

The decrease in the specific component of the allowance from \$24.9 million in 2013 to \$21.1 million in 2014 was primarily attributable to a decrease in nonperforming loans attributable to restructurings and pay-offs as a result of improvement in commercial and institutional, commercial real estate and residential real estate loans, partially offset by additional allowances provided for new and existing nonperforming loans.

**Inherent Component of the Allowance:** The inherent component of the allowance addresses exposure relating to probable but unidentified credit-related losses. The inherent component of the allowance also covers the credit exposure associated with undrawn loan commitments and standby letters of credit. To estimate the allowance for credit losses on

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

these instruments, management uses conversion rates to determine the estimated amount that will be drawn and assigns an allowance factor determined in accordance with the methodology utilized for outstanding loans. The inherent portion of the allowance decreased \$44.6 million to \$230.2 million at December 31, 2015, compared with \$274.8 million at December 31, 2014, which decreased \$8.2 million from \$283.0 million at December 31, 2013. The decrease in 2015 was driven by improved credit quality across the loan and lease portfolio. In addition, Northern Trust changed the estimation methodology for the calculation of the inherent component of the allowance as of December 31, 2015. See Allowance for Credit Losses in Critical Accounting Estimates on page 56 for a description of the change in estimation methodology. The adoption of this methodology resulted in a reduction in the Commercial and Institutional allowance requirement, which was partially offset by an increase to the allowance assigned to undrawn commitments and standby letters of credit. The adoption of the new estimation methodology did not have a material impact on the estimated reserve for any other presented loan categories. The decrease in 2014 was primarily attributable to improvement in the credit quality of commercial real estate, residential real estate and commercial and institutional loans in certain markets, partially offset by additional allowances established for increased loan volumes in the commercial and institutional and commercial real estate loan classes.

**Overall Allowance:** The evaluation of the specific component and the inherent component above resulted in a total allowance for credit losses of \$233.3 million at December 31, 2015, compared with \$295.9 million at the end of 2014. The allowance of \$193.8 million assigned to loans and leases, as a percentage of total loans and leases, was 0.58% at December 31, 2015, down from a \$267.0 million allowance, representing 0.84% of total loans and leases, at December 31, 2014. Allowances assigned to undrawn loan commitments and standby letters of credit totaled \$39.5 million and \$28.9 million at December 31, 2015, and December 31, 2014, respectively, and are included in other liabilities in the consolidated balance sheets.

**Provision:** The provision for credit losses was a credit of \$43.0 million and net charge-offs totaled \$19.5 million in 2015. This compares with a \$6.0 million provision for credit losses and net charge-offs of \$18.0 million in 2014, and a \$20.0 million provision for credit losses and net charge-offs of \$39.7 million in 2013.

**Impaired Loans**

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement or when its terms have been modified as a concession resulting from the debtor's financial difficulties, referred to as a troubled debt restructuring. As of December 31, 2015, impaired loans totaled \$157.3 million and included \$117.1 million of loans deemed troubled debt restructurings as compared to total impaired loans of \$242.2 million at December 31, 2014, which included \$151.3 million of loans deemed troubled debt restructurings. Impaired loans had \$3.1 million and \$6.6 million of the allowance for credit losses allocated to them at December 31, 2015, and December 31, 2014, respectively. Impaired loans are measured based upon the loan's market price, the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the fair value of the collateral if the loan is collateral dependent. If the loan valuation is less than the recorded value of the loan, dependent upon the level of certainty of loss, either a specific allowance is established or a charge-off is recorded for the difference. Smaller balance (individually less than \$1 million as of December 31, 2015) homogeneous loans are collectively evaluated for impairment and excluded from impaired loan disclosures as allowed under applicable accounting standards.

**CRITICAL ACCOUNTING ESTIMATES**

The use of estimates and assumptions is required in the preparation of financial statements in conformity with GAAP and actual results could differ from those estimates. The SEC has issued guidance relating to the disclosure of critical accounting estimates. Critical accounting estimates are those that require management to make subjective or complex

judgments about the effect of matters that are inherently uncertain and may change in subsequent periods. Changes that may be required in the underlying assumptions or estimates in these areas could have a material impact on Northern Trust's future financial condition and results of operations.

For Northern Trust, accounting estimates that are viewed as critical are those relating to the allowance for credit losses, pension plan accounting, and OTTI of investment securities. Management has discussed the development and selection of each critical accounting estimate with the Audit Committee of the Board of Directors (Audit Committee).

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable losses which have occurred as of the date of the consolidated financial statements. The loan and lease portfolio and other lending-related credit exposures are regularly reviewed to evaluate the level of the allowance for credit losses. In determining an appropriate allowance level, Northern Trust evaluates the allowance necessary for impaired loans and lending-related commitments and also estimates losses inherent in other lending-related credit exposures.

The allowance for credit losses consists of the following components:

**Specific Allowance:** The 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. For impaired loans where the amount of specific allowance, if any, is determined based on the value of the underlying real estate collateral, third-party appraisals are typically obtained and utilized by management. These appraisals are generally less than twelve months old and are subject to adjustments to reflect management's judgment as to the realizable value of the collateral.

**Inherent Allowance:** As of December 31, 2015, Northern Trust changed the estimation methodology for inherent losses that have been incurred in the loan and lease portfolio. The new estimation methodology is more quantitatively focused than the previous methodology as it is based on internally developed loss data specific to the Northern Trust loan and lease portfolio. The change in methodology is accounted for as a change in estimate applicable to current period and future periods. The new estimation methodology and the related qualitative adjustment framework segregate the loan and lease portfolio into homogeneous segments. For each segment, the probability of default and the loss given default are applied to the total exposure at default to determine a quantitative inherent allowance. The estimated allowance is reviewed by the Loan Loss Reserve Committee within a qualitative adjustment framework to determine an appropriate adjustment to the quantitative inherent allowance for each segment of the loan portfolio. In determining the appropriate adjustment, management applies judgment by assessing internal risk factors, potential limitations in the quantitative methodology and environmental factors that are not contemplated in the quantitative methodology. The Loan Loss Reserve Committee is comprised of representatives from Credit Risk Management, the reporting segments and Corporate Finance.

For periods prior to the methodology change, the amount of inherent allowance was based on factors that incorporated management's evaluation of historical charge-off experience and various qualitative factors such as management's evaluation of economic and business conditions and changes in the character and size of the loan portfolio. Factors were applied to loan and lease credit exposures aggregated by shared risk characteristics and were reviewed quarterly by the Loan Loss Reserve Committee.

The quarterly analysis of the specific and inherent allowance components and the control process maintained by Credit Risk Management and the lending staff are the principal methods relied upon by management for the timely identification of, and adjustment for, changes in estimated credit loss levels. In addition to Northern Trust's own experience, management also considers regulatory guidance. Control processes and analyses employed to determine an appropriate level of allowance for credit losses are reviewed on at least an annual basis and modified as considered appropriate.

Loans, leases and other extensions of credit deemed uncollectible are charged to the allowance for credit losses. Subsequent recoveries, if any, are credited to the allowance. Determinations as to whether loan balances for which the collectability is in question are charged-off or a specific reserve is established based on management's assessment as to the level of certainty regarding the amount of loss. The provision for credit losses, which is charged to income, is the amount necessary to adjust the allowance for credit losses to the level deemed to be appropriate through the above process. Actual losses may vary from current estimates and the amount of the provision for credit losses may be either greater than or less than actual net charge-offs.

Management's estimates utilized in establishing an appropriate level of allowance for credit losses are not dependent on any single assumption. Management evaluates numerous variables, many of which are interrelated or dependent on other assumptions and estimates, in determining an appropriate allowance level. Due to the inherent imprecision in accounting estimates, other estimates or assumptions could reasonably have been used in 2015 and changes in estimates are reasonably likely to occur from period to period.

Additionally, as an integral part of their examination process, various federal and state regulatory agencies also review the allowance for credit losses. These agencies may require that certain loan balances be classified differently or charged off when their credit evaluations differ from those of management, based on their judgments about information available to them at the time of their examination. However, management believes that the allowance for credit losses adequately addresses these uncertainties and has been established at an appropriate level to cover probable losses which have occurred as of the date of the consolidated financial statements.

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## Pension Plan Accounting

Northern Trust maintains a noncontributory defined benefit pension plan covering substantially all U.S. employees (the Qualified Plan) and a U.S. noncontributory supplemental pension plan (the Nonqualified Plan). Certain European-based employees also retain benefits in local defined benefit pension plans which are closed to new employees and to future benefit accruals. Measuring cost and reporting liabilities resulting from defined benefit pension plans requires the use of several assumptions regarding future interest rates, asset returns, compensation increases, mortality rates, and other actuarial-based projections relating to the plans. Due to the long-term nature of this obligation and the estimates that are required to be made, the assumptions used in determining the periodic pension expense and the projected pension obligation are closely monitored and reviewed annually for adjustments that may be required. Pension accounting guidance requires that differences between estimates and actual experience be recognized as other comprehensive income in the period in which they occur. The differences are amortized into net periodic pension expense from accumulated other comprehensive income over the future working lifetime of eligible participants. As a result, differences between the estimates made in the calculation of periodic pension expense and the projected pension obligation and actual experience affect stockholders' equity in the period in which they occur but continue to be recognized as expense systematically and gradually over subsequent periods. Northern Trust recognizes the significant impact that these pension-related assumptions have on the determination of the pension obligations and related expense and has established procedures for monitoring and setting these assumptions each year. These procedures include an annual review of actual demographic and investment experience with the pension plans' actuaries. In addition to actual experience, adjustments to these assumptions consider observable yields on fixed income securities, known compensation trends and policies, as well as economic conditions and investment strategies that may impact the estimated long-term rate of return on plan assets.

In determining the pension expense for the U.S. plans in 2015, Northern Trust utilized a discount rate of 4.25% for both the Qualified Plan and the Nonqualified Plan. The rate of increase in the compensation level is based on a sliding scale that averaged 4.25%. The expected long-term rate of return on Qualified Plan assets was 7.25%.

In evaluating possible revisions to pension-related assumptions for the U.S. plans as of Northern Trust's December 31, 2015 measurement date, the following were considered:

**Discount Rate:** Effective December 31, 2015, Northern Trust estimates the discount rate for its U.S. pension plans by applying the projected cash flows for future benefit payments to the Aon Hewitt AA Above Median yield curve as of the measurement date. This yield curve is composed of individual zero-coupon interest rates for 198 different time periods over a 99-year time horizon. Zero-coupon rates utilized by the yield curve are mathematically derived from observable market yields for AA-rated corporate bonds. This yield curve model referenced by Northern Trust in establishing the discount rate resulted in a rate of 4.71% at December 31, 2015 for the Qualified and Nonqualified plans, an increase from 4.25% at December 31, 2014.

**Compensation Level:** Based on a review of actual and anticipated salary experience, the compensation scale assumption is based on a sliding scale that averages 4.25%.

**Rate of Return on Plan Assets:** The expected return on plan assets is based on an estimate of the long-term (30 years) rate of return on plan assets, which is determined using a building block approach that considers the current asset mix and estimates of return by asset class based on historical experience, giving proper consideration to diversification and rebalancing. Current market factors such as inflation and interest rates are also evaluated before long-term capital market assumptions are determined. Peer data and historical returns are reviewed to check for reasonability and appropriateness. As a result of these analyses, Northern Trust's rate of return assumption decreased from 7.25% for 2015 to 7.00% for 2016.

**Mortality Table:** Northern Trust uses the mortality table proposed by the U.S. Treasury for use in accordance with the provisions of the Pension Protection Act of 2006 (PPA) for both pre- and post-retirement mortality assumptions. Effective December 31, 2015, Northern Trust changed from the RP-2014 mortality table with improvement scale MP-2014 to the aggregate RP-2014 mortality table with adjustment from 2006 to 2014 to reflect improvement scale

MP-2015, and with future improvement under scale MP-2015 released by the Society of Actuaries in October 2015. The updated mortality table and improvement scale apply to annuity payments only and result in generally lower projected mortality improvements than estimated by the 2014 tables. Mortality assumptions on lump sum payments remain static and continue to be in line with the IRS prescribed table for minimum lump sums in 2016.

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In order to illustrate the sensitivity of these assumptions on the expected Qualified Plan periodic pension expense in 2016 and the projected benefit obligation as of December 31, 2015, the following table is presented to show the effect of increasing or decreasing each of these assumptions by 25 basis points.

TABLE 32: SENSITIVITY OF QUALIFIED PENSION PLAN ASSUMPTIONS

(\$ In Millions)	25 BASIS POINT INCREASE	25 BASIS POINT DECREASE
Increase (Decrease) in 2016 Pension Expense		
Discount Rate Change	\$ (3.7	) \$ 3.8
Compensation Level Change	1.4	(1.4 )
Rate of Return on Plan Assets Change	(3.4	) 3.4
Increase (Decrease) in 2015 Projected Benefit Obligation		
Discount Rate Change	(39.8	) 42.0
Compensation Level Change	4.8	(4.7 )

**Pension Contributions:** The deduction limits specified by the Internal Revenue Code for contributions made by sponsors of defined benefit pension plans are based on a "Target Liability" under the provisions of the PPA. There were no contributions to the Qualified Plan in 2015 and 2014 due to strong asset performance over the past few years. The minimum required contribution to the Qualified Plan is expected to be zero in 2016. The maximum deductible contribution is estimated at \$250 million for 2016.

**Other-Than-Temporary Impairment of Investment Securities**

Under GAAP, companies are required to perform periodic reviews of securities with unrealized losses to determine whether the declines in value are considered other-than-temporary. For available-for-sale and held-to-maturity securities that management has no intent to sell, and believes it more-likely-than-not that it will not be required to sell, prior to recovery, the consolidated statements of income reflect only the credit loss component of an impairment, while the remainder of the fair value loss is recognized in accumulated other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal not expected to be received over the remaining term of the security as projected. For debt securities that Northern Trust intends to sell, or would more-likely-than-not be required to sell, before the expected recovery of the amortized cost basis, the full impairment (that is, the difference between the security's amortized cost basis and fair value) is recognized in earnings. The application of significant judgment is required in determining the assumptions used in assessing whether OTTI exists and, if so, in the calculation of the credit loss component of the OTTI. Assumptions used in this process are inherently subject to change in future periods. Different judgments or subsequent changes in estimates could result in materially different impairment loss recognition.

Northern Trust conducts security impairment reviews quarterly to identify and evaluate those securities within its investment portfolio that have indications of possible OTTI. A determination as to whether a security's decline in market value is other-than-temporary takes into consideration numerous factors and the relative significance of any single factor can vary by security. Factors Northern Trust considers in determining whether impairment is other-than-temporary include, but are not limited to, the length of time the security has been impaired; the severity of the impairment; the cause of the impairment and the financial condition and near-term prospects of the issuer; activity in the market of the issuer which may indicate adverse credit conditions; Northern Trust's intent regarding the sale of the security as of the balance sheet date; and the likelihood that it will not be required to sell the security for a period of time sufficient to allow for the recovery of the security's amortized cost basis.

There were no credit-related losses recognized in 2015 or 2013. Credit-related losses recognized in 2014 in connection with the write-down of securities totaled \$4.2 million. Additional OTTI may occur in future periods as a result of



market and economic conditions.

#### FAIR VALUE MEASUREMENTS

The preparation of financial statements in conformity with GAAP requires certain assets and liabilities to be reported at fair value. As of December 31, 2015, approximately 29% of Northern Trust's total assets and approximately 1% of its total liabilities were carried on the consolidated balance sheets at fair value. As discussed more fully in Note 3, "Fair Value Measurements," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data," GAAP requires entities to categorize financial assets and liabilities carried at fair value according to a three-level valuation hierarchy. The hierarchy gives the highest priority to quoted, active market prices for identical assets and

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liabilities (Level 1) and the lowest priority to valuation techniques that require significant management judgment because one or more of the significant inputs are unobservable in the market place (Level 3). Approximately 18% of Northern Trust's assets carried at fair value are classified as Level 1; Northern Trust typically does not hold equity securities or other instruments that are actively traded on an exchange.

Approximately 82% of Northern Trust's assets and 99% of its liabilities carried at fair value are categorized as Level 2, as they are valued using models in which all significant inputs are observable in active markets. Investment securities classified as available for sale make up 95% of Level 2 assets with the remaining 5% primarily consisting of derivative financial instruments. Level 2 liabilities are comprised solely of derivative financial instruments.

Northern Trust's Level 2 assets include available for sale and trading account securities, the fair values of which are determined predominantly by external pricing vendors. Northern Trust has a well-established process to validate prices received from pricing vendors as discussed more fully in Note 3, "Fair Value Measurements," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data."

As of December 31, 2015, all derivative assets and liabilities, excluding the swap related to the sale of certain Visa Class B common shares described below, were classified in Level 2 and approximately 97%, measured on a notional value basis, related to client-related and trading activities, predominantly consisting of foreign exchange contracts. Derivative instruments are valued internally using widely accepted income-based models that incorporate inputs readily observable in actively quoted markets and reflect contractual terms of contracts. Northern Trust evaluated the impact of counterparty credit risk and its own credit risk on the valuation of derivative instruments. Factors considered included the likelihood of default by Northern Trust and its counterparties, the remaining maturities of the instruments, net exposures after giving effect to master netting agreements, available collateral, and other credit enhancements in determining the appropriate fair value of derivative instruments. The resulting valuation adjustments are not considered material.

As of December 31, 2015, the fair value of Northern Trust's Level 3 assets were \$17.1 million. Level 3 assets consist of auction rate securities purchased from Northern Trust clients. To estimate the fair value of auction rate securities, for which trading is limited and market prices are generally unavailable, Northern Trust developed and maintains a pricing model that discounts estimated cash flows over their estimated remaining lives. Significant inputs to the model include the contractual terms of the securities, credit risk ratings, discount rates, forward interest rates, credit/liquidity spreads, and Northern Trust's own assumptions about the estimated remaining lives of the securities.

As of December 31, 2015, Northern Trust's Level 3 liabilities consisted of a swap that Northern Trust entered into with the purchaser of 1.0 million shares of Visa Class B common shares previously held by Northern Trust. Pursuant to the swap, Northern Trust retains the risks associated with the ultimate conversion of the Visa Class B common shares into shares of Visa Inc. Class A common stock (Visa Class A common shares), such that the counterparty will be compensated for any dilutive adjustments to the conversion ratio and Northern Trust will be compensated for any anti-dilutive adjustments to the ratio. The swap also requires periodic payments from Northern Trust to the counterparty calculated by reference to the market price of Visa Class A common shares and a fixed rate of interest. The fair value of the swap is determined using a discounted cash flow methodology. The significant unobservable inputs used in the fair value measurement are Northern Trust's own assumptions about estimated changes in the conversion rate of the Visa Class B common shares into Visa Class A common shares, the date on which such conversion is expected to occur and the estimated growth rate of the Visa Class A common share price. See "Visa Class B Common Shares" under Note 24, "Contingent Liabilities," provided in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K for further information.

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

IMPLEMENTATION OF ACCOUNTING STANDARDS

Explanation of Responses:

Information related to recent accounting pronouncements is contained in Note 2, "Recent Accounting Pronouncements," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data."

**CAPITAL EXPENDITURES.**

Capital expenditures in 2015 included ongoing enhancements to Northern Trust's software and hardware capabilities, the opening of new offices, and the expansion and renovation of several existing offices. Capital expenditures for 2015 totaled \$433.5 million, of which \$335.0 million was for software, \$59.2 million was for computer hardware, \$34.2 million was for building and leasehold improvements, and \$5.1 million was for furnishings. These capital expenditures principally support

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and enhance Northern Trust's investment management, asset servicing and asset management capabilities, as well as relationship management and client interaction. Additional capital expenditures planned for systems technology will result in future expense for the depreciation of hardware and amortization of software. Software amortization and depreciation on computer hardware and machinery are charged to equipment and software expense. Depreciation on building and leasehold improvements and on furnishings is charged to occupancy expense and equipment expense, respectively. Capital expenditures for 2014 totaled \$409.5 million, of which \$327.6 million was for software, \$42.2 million was for computer hardware, \$31.6 million was for building and leasehold improvements, and \$8.1 million was for furnishings.

## OFF-BALANCE-SHEET ARRANGEMENTS

## Assets Under Custody/Administration and Assets Under Management

Northern Trust, in the normal course of business, holds assets under custody/administration and management in a fiduciary or agency capacity for its clients. In accordance with GAAP, these assets are not assets of Northern Trust and are not included in its consolidated balance sheets.

## Commitments, Letters of Credit and Securities Lent with Indemnification

Northern Trust, in the normal course of business, enters into various types of commitments and issues letters of credit to meet the liquidity and credit enhancement needs of its clients. The contractual amounts of these instruments represent the potential credit exposure should the instrument be drawn fully upon and the client default. To control the credit risk associated with entering into commitments and issuing letters of credit, Northern Trust subjects such activities to the same credit quality and monitoring controls as its lending activities. The following table provides details of Northern Trust's off-balance-sheet financial instruments as of December 31, 2015 and 2014.

TABLE 33: SUMMARY OF OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS WITH CONTRACT AMOUNTS

(\$ In Millions)	2015	DECEMBER 31, 2014
Undrawn Commitments to Extend Credit		
One Year and Less	\$ 12,530.3	\$ 10,660.1
Over One Year	24,716.7	24,467.5
Total	\$ 37,247.0	\$ 35,127.6
Standby Letters of Credit	\$ 4,305.4	\$ 4,468.1
Commercial Letters of Credit	17.2	20.8
Custody Securities Lent with Indemnification	94,514.0	98,113.9

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Undrawn commitments to extend credit generally have fixed expiration dates or other termination clauses. Since a significant portion of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future loans or liquidity requirements. The following table provides information about the industry sector and expiration dates of undrawn commitments to extend credit as of December 31, 2015.

TABLE 34: UNDRAWN COMMITMENTS TO EXTEND CREDIT BY INDUSTRY SECTOR  
AS OF DECEMBER 31, 2015

(\$ In Millions)	COMMITMENT EXPIRATION			OUTSTANDING LOANS
	TOTAL COMMITMENTS	ONE YEAR AND LESS	OVER ONE YEAR	
Commercial				
Commercial and Institutional				
Finance and Insurance	\$4,148.5	\$2,019.6	\$2,128.9	\$ 1,153.6
Holding Companies	9.4	7.3	2.1	107.4
Manufacturing	8,005.0	764.1	7,240.9	2,270.0
Mining	718.2	236.6	481.6	149.8
Public Administration	172.5	8.8	163.7	89.9
Retail Trade	999.9	152.9	847.0	269.5
Services	7,094.8	2,220.5	4,874.3	4,295.4
Transportation and Warehousing	398.8	52.0	346.8	266.3
Utilities	1,401.4	13.3	1,388.1	68.3
Wholesale Trade	821.3	130.1	691.2	578.3
Other Commercial	397.4	228.4	169.0	183.0
Commercial and Institutional (Note)	24,167.2	5,833.6	18,333.6	9,431.5
Commercial Real Estate	750.9	147.0	603.9	3,848.8
Lease Financing, net	—	—	—	544.4
Non-U.S.	1,924.2	1,255.0	669.2	1,137.7
Other	172.3	172.3	—	194.1
Total Commercial	27,014.6	7,407.9	19,606.7	15,156.5
Personal				
Residential Real Estate	1,366.1	284.4	1,081.7	8,850.7
Private Client	8,832.9	4,804.6	4,028.3	9,136.4
Other	33.4	33.4	—	37.3
Total Personal	10,232.4	5,122.4	5,110.0	18,024.4
Total	37,247.0	12,530.3	24,716.7	33,180.9

Note: Commercial and Institutional industry sector information is presented on the basis of the North American Industry Classification System (NAICS).

Standby letters of credit obligate Northern Trust to meet certain financial obligations of its clients, if, under the contractual terms of the agreement, the clients are unable to do so. These instruments are primarily issued to support public and private financial commitments, including commercial paper, bond financing, initial margin requirements

on futures exchanges and similar transactions. Northern Trust is obligated to meet the entire financial obligation of these agreements and in certain cases is able to recover the amounts paid through recourse against collateral received or other participants. Standby letters of credit of \$4.3 billion and \$4.5 billion at December 31, 2015 and 2014, respectively, include \$147.1 million and \$221.4 million, respectively, of standby letters of credit secured by cash deposits or participated to others. The weighted average maturity of standby letters of credit was 24 and 27 months at December 31, 2015 and 2014, respectively.

As part of its securities custody activities and at the direction of its clients, Northern Trust lends securities owned by clients to borrowers who are reviewed and approved by the Northern Trust Counterparty Risk Management Committee. In connection with these activities, Northern Trust has issued indemnifications to certain clients against certain losses that are a direct result of a borrower's failure to return securities when due, should the value of such securities exceed the value of the collateral required to be posted. Borrowers are required to collateralize fully securities received with cash or marketable securities. As securities are loaned, collateral is maintained at a minimum of 100% of the fair value of the securities plus accrued interest. The collateral is revalued on a daily basis. The amount of securities loaned subject to indemnification was \$94.5 billion and \$98.1 billion at December 31, 2015 and 2014, respectively. Because of the credit quality of the borrowers

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and the requirement to collateralize fully securities borrowed, management believes that the exposure to credit loss from this activity is not significant and no liability was recorded at December 31, 2015, or 2014 related to these indemnifications.

Additional information about Northern Trust's off-balance-sheet financial instruments is included in Note 27, "Off-Balance-Sheet Financial Instruments," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data."

Variable Interest Entities

Variable Interest Entities (VIEs) are defined within GAAP as entities which either have a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. Investors that finance a VIE through debt or equity interests, or other counterparties that provide other forms of support, such as guarantees, subordinated fee arrangements, or certain types of derivative contracts, are variable interest holders in the entity and the variable interest holder, if any, that has both the power to direct the activities that most significantly impact the entity and a variable interest that could potentially be significant to the entity is deemed to be the VIE's primary beneficiary and is required to consolidate the VIE.

Leveraged Leases. In leveraged leasing transactions, Northern Trust acts as lessor of the underlying asset subject to the lease and typically funds 20-30% of the asset's cost via an equity ownership in a trust with the remaining 70-80% provided by third party non-recourse debt holders. In such transactions, the trusts, which are VIEs, are created to provide the lessee use of the property with substantially all of the rights and obligations of ownership. The lessee's maintenance and operation of the leased property has a direct effect on the fair value of the underlying property, and the lessee also has the ability to increase the benefits it can receive and limit the losses it can suffer by the manner in which it uses the property. As a result, Northern Trust has determined that it is not the primary beneficiary of these VIEs given it lacks the power to direct the activities that most significantly impact the economic performance of the VIEs.

Tax Credit Structures. Northern Trust invests in qualified affordable housing projects and community development entities (collectively, community development projects) that are designed to generate a return primarily through the realization of tax credits. These community development projects are formed as limited partnerships and LLCs in which Northern Trust typically invests as a limited partner/investor member through equity contributions. The economic performance of the community development projects, which are VIEs, is subject to the performance of their underlying investments and their ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. Northern Trust has determined that it is not the primary beneficiary of any community development projects as it lacks the power to direct the activities that most significantly impact the economic performance of the underlying investments or to affect their ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. This power is held by the general partners and managing members who exercise full and exclusive control of the operations of the VIEs.

Investment Funds. Northern Trust acts as asset manager for various funds in which clients of Northern Trust are investors. As an asset manager of funds, the Corporation earns a competitively priced fee that is based on assets managed and varies with each fund's investment objective. Based on its analysis, Northern Trust has determined that it is not the primary beneficiary of these VIEs under GAAP.

LIQUIDITY AND CAPITAL RESOURCES

Explanation of Responses:

### Liquidity Risk Management

The objectives of liquidity risk management are to ensure that Northern Trust can meet its cash flow obligations under both normal and adverse economic conditions while maintaining its ability to act on business opportunities in a timely and cost effective manner. Liquidity risk is the risk of not being able to raise sufficient funds or maintain collateral to meet on- and off-balance sheet and contingent liability cash flow obligations when due because of firm-specific or market-wide events.

### Governance and Risk Management Framework

Northern Trust manages its liquidity under a global risk management framework, incorporating regional policies, limits and management when appropriate. The Corporate Liquidity Management Policy, as well as corporate liquidity procedures, limits and risk appetite, are reviewed and approved annually by the Board of Directors. The Board receives a semiannual update on the Corporation's operations in accordance with established liquidity limits. The Business Risk Committee receives reports at least quarterly on the Corporation's liquidity risk profile and liquidity risk tolerance. Additionally, the



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Asset & Liability Management Committee (ALCO) is responsible for recommending liquidity policies to the Board, establishing internal liquidity thresholds, assessing Northern Trust's overall liquidity status, and reviewing reports, including liquidity stress test results, cash flows and other analyses on a regular basis. The Treasury department has the day-to-day responsibility for measuring, analyzing and managing liquidity risk within the thresholds and limits established by ALCO and the Board. The Risk Management function independently reviews and challenges the liquidity management process.

Northern Trust's Global Liquidity Management framework focuses on five key areas - position management; liquidity analysis; contingency planning; peer group comparisons; and management reporting - while also providing for the review and management of the liquidity of the Corporation separate from that of the Bank. It is through this framework that management monitors its sources and uses of liquidity, evaluates their level of stability under various circumstances, plans for adverse situations, benchmarks itself against other banks, provides information to management, and complies with various U.S. and international regulations.

Position management includes daily monitoring of cash positions, anticipating future funding requirements given both internal and external events, and management of the liquidity coverage ratio. As the Corporation's principal subsidiary encompassing all of Northern Trust's banking activities, the Bank centrally manages liquidity for all U.S. and international banking operations. Liquidity is provided by a variety of sources, including client deposits (institutional and personal) from the C&IS and Wealth Management businesses, wholesale funding from the capital markets, maturities of short-term investments, Federal Home Loan Bank advances, and unencumbered liquid assets that can be sold or pledged to secure additional funds. While management does not view central bank discount windows as primary sources of liquidity, at December 31, 2015, the Bank had over \$35.4 billion of securities and loans readily available as collateral to support discount window borrowings. The Bank is also active in the U.S. interbank funding market, providing an important source of additional liquidity and low-cost funds. Liquidity supports a variety of activities, including client withdrawals, purchases of securities, net loan growth, and draws on commitments to extend credit. Northern Trust maintains a very liquid balance sheet, with cash and due from banks, deposits with the Federal Reserve and other central banks, short-term money market assets and investment securities in aggregate representing 65% of total assets as of December 31, 2015. The market value of unencumbered securities at the Bank, which include those placed at the Federal Reserve discount window, totaled \$33.3 billion at December 31, 2015. The Corporation believes that it and the Bank each satisfied the fully phased-in monthly U.S. liquidity coverage ratio requirements during 2015.

Liquidity analysis evaluates a bank's ability to meet its cash flow obligations given a variety of possible internal and external events and under different economic conditions. Northern Trust uses liquidity analysis to support its contingent liquidity plans, size its liquidity buffer, gain insight into its liquidity position and strengthen its liquidity and management practices. Liquidity analysis is performed using multiple independent scenarios, across major currencies, at a consolidated corporate level and for various international banking subsidiaries. These scenarios, which include both company-specific and systemic events, analyze potential impacts on Northern Trust's domestic and foreign deposit balances, wholesale funding sources, financial market access, external borrowing capacity and off-balance-sheet obligations. Results are reviewed by senior management and ALCO on a regular basis.

Another important area of Northern Trust's liquidity risk management is the development and maintenance of contingent liquidity plans. A contingent funding plan covering the Corporation, Bank and major subsidiaries is approved annually by the Business Risk Committee and regularly updated and tested. This plan, which can be activated in the event of an actual liquidity crisis, details organizational responsibilities and defines specific actions designed to ensure the proper maintenance of liquidity during periods of stress. In conjunction with Northern Trust's global contingent funding plan, international banking subsidiaries also have individual contingent liquidity plans. Northern Trust analyzes its liquidity profile against a peer group of large U.S. bank holding companies, including other major custody banks. This analysis provides management with benchmarking information, highlights industry trends, and supports the establishment of new strategies.

Management regularly reviews various reports, analyses and other information depicting changes in Northern Trust's liquidity mix and funding concentrations, overall financial market conditions and other internal and external liquidity metrics. Management uses this information to evaluate the overall status of Northern Trust's liquidity position and anticipate potential events that could stress that position in the future. An overall Liquidity Status Level for Northern Trust, established and regularly reviewed by ALCO, is monitored on an ongoing basis by the Treasury department. Downgrades in liquidity status resulting from internal, external or industry-wide events, trigger specific pre-determined actions and limits designed to position Northern Trust to respond better to potential liquidity stresses.

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## Corporation Liquidity

The liquidity of the Corporation is managed separately from that of the Bank. The primary sources of cash for the Corporation are issuances of debt or equity, dividend payments from the Bank and interest earned on investment securities and money market assets. In 2015, the Corporation received \$600.0 million of dividends from the Bank. Dividends from the Bank are subject to certain restrictions, as discussed in further detail in Note 30, "Restrictions on Subsidiary Dividends and Loans or Advances," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data." The Corporation's uses of cash consist mainly of dividend payments to the Corporation's stockholders; the payment of principal and interest to note holders; repurchases of its common stock; and investments in, or loans to, its subsidiaries. The most significant uses of cash by the Corporation during 2015 were \$496.9 million of common stock repurchases and \$321.4 million of common stock dividends.

The Corporation's liquidity, defined as the amount of cash and highly marketable assets, was \$757.5 million and \$869.4 million at December 31, 2015 and 2014, respectively. During, and at year-end, 2015 and 2014, these assets were comprised almost entirely of cash in a demand deposit account at the Bank or overnight money market placements, both of which were fully available to the Corporation to support its own cash flow requirements or those of its subsidiaries, as needed. Average liquidity during 2015 and 2014 was \$846.2 million and \$1.1 billion, respectively. The cash flows of the Corporation are shown in Note 33, "Northern Trust Corporation (Corporation only)," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data."

A significant source of liquidity for both the Corporation and the Bank is the ability to draw funding from capital markets globally. The credit ratings of the Corporation and the Bank as of December 31, 2015, provided below, allow Northern Trust to access capital markets on favorable terms.

TABLE 35: NORTHERN TRUST CREDIT RATINGS AS OF DECEMBER 31, 2015

	CREDIT RATING		
	STANDARD & POOR'S	MOODY'S	FITCH RATINGS
Northern Trust Corporation:			
Commercial Paper	A-1	P-1	F1+
Senior Debt	A+	A2	AA-
Subordinated Debt	A	A2	A+
Preferred Stock	BBB+	Baa1	BBB
Trust Preferred Capital Securities	BBB+	A3	BBB+
Outlook	Stable	Stable	Stable
The Northern Trust Company:			
Short-Term Deposit	A-1+	P-1	F1+
Long-Term Deposit	AA-	Aa2	AA
Subordinated Debt	A+	A2	A+
Outlook	Stable	Stable	Stable

A significant downgrade in one or more of these ratings could limit Northern Trust's access to capital markets and/or increase the rates paid for short-term borrowings, including deposits, and future long-term debt issuances. The size of these rate increases would depend on multiple factors including, the extent of the downgrade, Northern Trust's relative debt rating compared to other financial institutions, current market conditions, and other factors. In addition, as discussed in Note 25, "Derivative Financial Instruments," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data," Northern Trust enters into certain master netting arrangements with derivative counterparties that contain credit-risk-related contingent features in which the counterparty has the option to declare Northern Trust in default and accelerate cash settlement of net derivative liabilities with the counterparty in

the event Northern Trust's credit rating falls below specified levels. The net maximum amount of these termination payments that Northern Trust could have been required to pay at December 31, 2015, was \$390.2 million. Other than these credit-risk-related contingent derivative counterparty payments, Northern Trust had no long-term debt covenants or other credit-risk-related payments at December 31, 2015, that would be triggered by a significant downgrade in its debt ratings.

#### Statements of Cash Flows

For the year ended December 31, 2015, net cash provided by operating activities was \$1.8 billion, primarily the result of period earnings, decreased net collateral deposited with counterparties and the impact of non-cash charges such as amortization of computer software, partially offset by other operating activities.

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Net cash provided by operating activities for the year ended December 31, 2014, was \$936.0 million and was primarily the result of period earnings and the impact of non-cash charges such as amortization of computer software, partially offset by increased net collateral deposited with derivative counterparties.

Net cash used in investing activities of \$6.9 billion for the year ended December 31, 2015, primarily reflects the strategic net purchases of securities available for sale and held to maturity to increase the yield on earning assets and increased loans and leases net of \$585.2 million in gross cash proceeds received related to the decision to exit a non-strategic loan and lease portfolio, partially offset by decreased levels of Federal Reserve deposits.

Net cash used in investing activities of \$8.2 billion for the year ended December 31, 2014, was primarily attributable to increased levels of Federal Reserve deposits, net purchases of securities held to maturity and available for sale, and increased levels of loans and leases, partially offset by decreased levels of interest-bearing deposits with banks. The net increase in investment securities and the decrease in interest-bearing deposits with banks primarily reflected the redeployment of investments in bank time deposits to securities. The increase in Federal Reserve deposits primarily reflected increases in demand and other noninterest-bearing client deposits in 2014.

For the year ended December 31, 2015, net cash provided by financing activities totaled \$8.5 billion, primarily attributable to higher levels of total deposits and strategic increases in short-term other borrowings with the Federal Home Loan Bank, partially offset by federal funds purchased, the repurchase of common stock pursuant to the Corporation's share repurchase program, dividends paid on common and preferred stock, securities sold under agreements to repurchase and the repayment of sterling denominated notes. The increase in total deposits is primarily attributable to higher levels of non-U.S. office deposits.

For the year ended December 31, 2014, net cash provided by financing activities totaled \$7.1 billion, primarily attributable to increased levels of total deposits and proceeds from the issuance of Series C Preferred Stock, partially offset by repayments of senior notes and other long-term debt, the repurchase of common stock pursuant to the Corporation's share repurchase program, and cash dividends paid to common stockholders. The increase in total deposits was attributable to higher levels of demand and other noninterest-bearing client deposits. The decrease in senior notes and other long-term debt reflect the maturity of \$500.0 million of fixed-rate senior notes and \$135.0 million of repayments of borrowing from the Federal Home Loan Bank, respectively.

**Regulatory Environment**

Northern Trust actively follows regulatory developments and regularly evaluates its liquidity risk management framework against proposed rulemaking and industry best practices in order to comply with applicable regulations and further enhance its liquidity policies. Please refer to "Liquidity Standards" under "Supervision and Regulation" in Item 1, "Business," of this Annual Report on Form 10-K for a discussion of applicable liquidity standards.

**Contractual Obligations**

The following table shows Northern Trust's contractual obligations as of December 31, 2015.

TABLE 36: CONTRACTUAL OBLIGATIONS AS OF DECEMBER 31, 2015

(\$ In Millions)	TOTAL	PAYMENT DUE BY PERIOD			
		ONE YEAR AND LESS	1-3 YEARS	3-5 YEARS	OVER 5 YEARS
Senior Notes <sup>(1)</sup>	\$1,497.4	\$—	\$—	\$499.7	\$997.7
Subordinated Debt <sup>(1)</sup>	1,341.6	—	541.2	—	800.4
Floating Rate Capital Debt <sup>(1)</sup>	277.3	—	—	—	277.3
Capital Lease Obligations <sup>(2)</sup>	34.8	9.1	18.7	7.0	—
Operating Leases <sup>(2)</sup>	536.0	85.1	157.1	121.0	172.8
Purchase Obligations <sup>(3)</sup>	322.0	160.3	130.1	21.4	10.2

Explanation of Responses:

Total Contractual Obligations	\$4,009.1	\$254.5	\$847.1	\$649.1	\$2,258.4
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Note: Obligations as shown do not include deposit liabilities or interest requirements on funding sources.

(1) Refer to Note 12, "Senior Notes and Long-Term Debt," and Note 13, "Floating Rate Capital Debt," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data," for further details.

(2) Refer to Note 10, "Lease Commitments," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data," for further details.

(3) Purchase obligations consist primarily of ongoing operating costs related to outsourcing arrangements for certain cash management services and the support and maintenance of the Corporation's technological requirements. Certain obligations are in the form of variable rate contracts and, in some instances, 2015 activity was used as a base to project future obligations.

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Capital Management

One of Northern Trust's primary objectives is to maintain a strong capital position to merit the confidence of clients, counterparties, creditors, regulators and stockholders. A strong capital position helps Northern Trust execute its strategies and withstand unforeseen adverse developments.

Senior management, with oversight from the Capital Governance Committee and the full Board of Directors, is responsible for capital management and planning. Northern Trust manages its capital on a total Corporation basis and on a legal entity basis. The Capital Committee is responsible for measuring and managing capital levels against levels set forth within the Capital Policy approved by the Board of Directors. In establishing the goals and targets for capital, a variety of factors are taken into consideration, including the unique risk profiles of Northern Trust's businesses, regulatory requirements, capital levels relative to peers, and the impact on credit ratings.

Capital levels were strengthened in 2015 as average stockholders' equity increased \$458.0 million, or 6%, reaching \$8.6 billion. Total stockholders' equity was \$8.7 billion at December 31, 2015, as compared to \$8.4 billion at December 31, 2014. In April 2015, the Board increased the quarterly common stock dividend by 9% to \$0.36 per common share. Common dividends totaling \$333.0 million were declared in 2015. The Corporation purchased 6.9 million shares of its common stock in 2015 at an average price per share of \$72.52, and is authorized by the Board to purchase up to 9.7 million additional shares of stock after December 31, 2015. Preferred dividends totaling \$23.4 million were declared in 2015.

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In accordance with Basel III requirements, capital ratios are calculated using both the standardized and advanced approaches. For each ratio, the lower of the result calculated under the standardized approach and the advanced approach serves as the effective ratio for purposes of determining capital adequacy. The following table provides a reconciliation of the Corporation's common stockholders' equity to total risk-based capital and its risk-based capital ratios, under the applicable U.S. regulatory rules as of December 31, 2015 and 2014.

TABLE 37: CAPITAL ADEQUACY

(\$ In Millions)	December 31, 2015		December 31, 2014	
	Advanced Approach <sup>(3)</sup>	Standardized Approach <sup>(4)</sup>	Advanced Approach <sup>(3)</sup>	Standardized Approach <sup>(4)</sup>
Common Equity Tier 1 Capital				
Common Stockholders' Equity	\$8,317.3	\$8,317.3	\$8,060.4	\$8,060.4
Net Unrealized (Gains) Losses on Securities Available for Sale	18.6	18.6	(22.1 )	(22.1 )
Net Unrealized (Gains) Losses on Cash Flow Hedges	1.8	1.8	3.8	3.8
Goodwill and Other Intangible Assets, net of Deferred Tax Liability	(494.0 )	(494.0 )	(497.0 )	(497.0 )
Pension and Other Postretirement Benefit Adjustments	192.7	192.7	272.8	272.8
Other	(23.8 )	(23.8 )	(4.6 )	(4.6 )
Total Common Equity Tier 1	8,012.6	8,012.6	7,813.3	7,813.3
Additional Tier 1 Capital				
Preferred Stock	388.5	388.5	388.5	388.5
Floating Rate Capital	67.2	67.2	134.5	134.5
Other	(37.0 )	(37.0 )	(18.3 )	(18.7 )
Total Additional Tier 1 Capital	418.7	418.7	504.7	504.3
Total Tier 1 Capital	8,431.3	8,431.3	8,318.0	8,317.6
Tier 2 Capital				
Qualifying Allowance for Credit Losses	—	233.3	—	274.7
Qualifying Subordinated Debt	909.2	909.2	1,009.1	1,009.1
Floating Rate Capital	201.7	201.7	134.5	134.5
Other	(12.5 )	(7.8 )	(12.4 )	(12.9 )
Total Tier 2 Capital	1,098.4	1,336.4	1,131.2	1,405.4
Total Risk-Based Capital	\$9,529.7	\$9,767.7	\$9,449.2	\$9,723.0
Risk-Weighted Assets <sup>(1)</sup>	\$67,334.6	\$73,962.5	\$62,896.9	\$62,651.2
Total Assets – End of Period (EOP)	116,749.6	116,749.6	109,946.5	109,946.5
Adjusted Average Fourth Quarter Assets <sup>(2)</sup>	113,099.9	113,099.9	106,814.0	106,814.0
Total Loans and Leases – EOP	33,180.9	33,180.9	31,640.2	31,640.2
Common Stockholders' Equity to:				
Total Loans and Leases – EOP	25.07	% 25.07	% 25.48	% 25.48
Total Assets – EOP	7.12	7.12	7.33	7.33
Risk-Based Capital Ratios				

Explanation of Responses:



Common Equity Tier 1	11.9	% 10.8	% 12.4	% 12.5	%
Tier 1	12.5	11.4	13.2	13.3	
Total (Tier 1 and Tier 2)	14.2	13.2	15.0	15.5	
Leverage	7.5	7.5	N/A	7.8	
Supplementary Leverage <sup>(5)</sup>	6.2	N/A	N/A	N/A	

(1) Risk-weighted assets exclude, as applicable under each regulatory approach, amounts primarily related to goodwill, certain other intangible assets, and net unrealized gains or losses on securities and reflect adjustments for excess allowances for credit losses that have been excluded from Tier 1 and Tier 2 capital, if any.

(2) Adjusted average fourth quarter assets exclude amounts primarily related to goodwill, other intangible assets, and net unrealized gains or losses on securities.

(3) Effective with the second quarter of 2014, Northern Trust exited its parallel run. Accordingly, the December 31, 2015 and 2014 capital balances and ratios are calculated in accordance with the Basel III Advanced Approach final rules released by the Federal Reserve Board on July 2, 2013.

(4) 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.

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

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As of December 31, 2015 and 2014, the Corporation's capital ratios exceeded the minimum requirements for classification as "well-capitalized" under applicable U.S. regulatory requirements. Further information regarding the Corporation's and the Bank's capital ratios and the minimum requirements for classification as "well-capitalized" is provided in the "Supervision and Regulation" section of Item 1, "Business," and Note 32, "Regulatory Capital Requirements," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data."

As of December 31, 2015, the Corporation's common equity Tier 1 capital ratio as calculated under the advanced approaches methodologies would have been 11.5% on a fully phased-in basis, while the Corporation's common equity Tier 1 capital ratio under the standardized approach would have been 10.5% on a fully phased-in basis.

The implementation of Basel III in the United States has increased the minimum capital thresholds for banking organizations and tightened the standards for what qualifies as capital. The Corporation and the Bank believe their capital strength, balance sheets and business models leave them well positioned for the continued U.S. implementation of Basel III.

**RISK MANAGEMENT****Risk Management Overview**

Northern Trust employs an integrated enterprise risk management framework to support its strategies. The framework provides a methodology to identify, assess, monitor, measure, manage and report both internal and external risks to Northern Trust, and promotes a culture of risk awareness across the organization. Northern Trust's risk culture encompasses the general awareness, attitude and behavior of employees to risk and the management of risk across all lines of defense within the organization. The key risk categories that are inherent in Northern Trust's business activities include: credit, operational, fiduciary, compliance, market, liquidity, and strategic risk. Please refer to "Liquidity and Capital Resources" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of liquidity risk management.

Northern Trust reinforces a culture of effective risk management through training and developing employees and evaluating and rewarding employee performance.

**Risk Governance and Oversight**

Risk governance is an integral aspect of corporate governance at Northern Trust, and includes clearly defined accountabilities, expectations, internal controls and processes for risk-based decision-making and escalation of issues. The diagram below provides a high-level overview of Northern Trust's risk governance structure, highlighting the oversight of the Board of Directors and key risk-related committees.

**TABLE 38: RISK GOVERNANCE STRUCTURE**

Northern Trust Corporation Board of Directors

Audit Committee	Business Risk Committee	Capital Governance Committee	Compensation and Benefit Committee
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Global Enterprise Risk Committee (GERC)

Global Enterprise Risk Management Committee (GERM)

Credit Risk Committee	Operational Risk Committee	Fiduciary Risk Committee	Compliance & Ethics Oversight Committee	Asset & Liability Management Committee	Model Risk Oversight Committee
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The Board of Directors provides oversight of risk management directly and through certain of its committees: the Audit Committee, the Business Risk Committee, the Capital Governance Committee and the Compensation and

Benefits Committee. The Board of Directors annually approves Northern Trust's enterprise risk management framework, risk universe and Corporate Risk Appetite Statement. The Business Risk Committee assumes primary responsibility and oversight with respect to credit risk, operational risk, fiduciary risk, compliance risk, market risk, liquidity risk, and strategic risk. The Audit Committee provides oversight with respect to financial reporting and legal risk, while the Compensation and Benefits Committee oversees the development and operation of Northern Trust's incentive compensation program. The Compensation and Benefits Committee annually reviews management's assessment of the effectiveness of the design and performance of Northern Trust's incentive compensation arrangements and practices in providing incentives that are consistent with Northern Trust's safety and soundness. This assessment includes an evaluation of whether Northern Trust's incentive compensation arrangements and practices discourage inappropriate risk taking

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behavior by participants. The Capital Governance Committee of the Board was established in November 2015 to assist the Board in discharging its oversight duties with respect to capital management and planning activities. Among other responsibilities, the Capital Governance Committee oversees Northern Trust's capital adequacy assessments, forecasting, and stress testing processes and activities, including the annual CCAR exercise. Accordingly, the Capital Governance Committee provides oversight with respect to Northern Trust's risk identification for the capital adequacy assessment process.

The Chief Risk Officer (CRO) oversees Northern Trust's management of risk, promotes risk awareness and fosters a proactive risk management environment wherein risks inherent in the business strategy are understood and appropriately monitored and mitigated. The CRO reports directly to the Business Risk Committee and the Corporation's Chief Executive Officer. The CRO regularly advises the Business Risk Committee and reports to the Committee at least quarterly on risk exposures, risk management deficiencies and emerging risks. In accordance with the enterprise risk management framework, the executive management team of Northern Trust, together with the General Auditor, meets as the Global Enterprise Risk Committee (GERC) to provide executive management oversight and guidance with respect to the management of the categories of risk overseen by the Business Risk Committee. Among other risk management responsibilities, GERC receives reports or recommendations from senior risk committees that are responsible for the management of risk, and from time to time may delegate responsibility to such committees for risk issues. Senior risk committees include:

The Global Enterprise Risk Management Committee (GERM) provides senior management oversight and guidance to the management of all categories of risk within Northern Trust. GERM is chaired by the CRO, and members include risk practice leads, business unit and regional chief risk officers, and various functional risk leaders.

The Credit Risk Committee establishes and monitors credit-related policies and practices throughout Northern Trust and promotes their uniform application. The Credit Risk Committee is chaired by the Chief Credit Officer, and members include the CRO, the Treasurer, the Chief Operational Risk Officer, the Controller, and various functional risk and business management leaders.

The Operational Risk Committee (ORC) provides independent oversight and is responsible for setting the Corporate Operational Risk Management Policy and developing the operational risk management framework and programs that support the coordination of operational risk activities to identify, monitor, measure, manage and report on operational risk. At ORC, senior management reviews and discusses operational risks including existing and emerging issues. The ORC also is responsible for coordinating operational risk issues related to compliance and fiduciary risks.

The Fiduciary Risk Committee (FRC) is responsible for establishing and reviewing the fiduciary risk policies and establishing the fiduciary risk framework, governance and programs that support the coordination of fiduciary risk activities to identify, monitor, manage and report on fiduciary risk. At FRC, senior management reviews and discusses fiduciary risks including existing and emerging issues.

The Compliance & Ethics Oversight Committee provides oversight and direction with respect to compliance policies, implementation of the compliance and ethics program, and the coordination of regulatory compliance initiatives across the Corporation. This committee also may resolve significant interpretive issues regarding compliance in situations where specific compliance policies do not provide for or allow resolution of the issue by another individual or committee.

The Asset & Liability Management Committee (ALCO) establishes and monitors Northern Trust's market and liquidity risk frameworks and policies as well as actively manages Northern Trust's market and liquidity risks through

oversight of the implementation of approved asset and liability management strategies. At ALCO, senior management reviews and discusses Northern Trust's market risk profile as well as various scenario analyses. ALCO establishes and monitors guidelines based on measures such as sensitivity of earnings (SOE), sensitivity of economic value of equity (SEVE), value-at-risk (VaR) and notional position sizes.

The Model Risk Oversight Committee (MROC) is responsible for providing management attention, direction, and oversight of the model risk management framework and model risk within Northern Trust. MROC reviews and, where applicable, provides guidance and approval as to the direction of the Northern Trust Model Risk Program and Policy. MROC tracks and provides oversight, advice, approval and direction on risk mitigation activities and the acceptance of significant risks, where appropriate.

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In addition to the aforementioned committees, Northern Trust deploys business and regional risk committees that also report into GERC.

**Risk Identification and Risk Management Process**

Northern Trust utilizes a risk classification system called the "risk universe" to identify and classify the risks that it inherently faces. The risk universe forms the basis of common risk language and provides a consistent framework for the definition and categorization of risk and the organization of risk management activities. The risk universe supports risk management at all levels and enables risks to be clearly and consistently identified, categorized, assessed, managed and reported to line management, corporate risk and committees.

As part of the integrated enterprise risk framework, Northern Trust has established four key processes as described below.

**Risk Appetite:** Northern Trust defines the organization's risk appetite as the amount and types of risk that it is willing to assume in its exposures and business activities to achieve its strategic and financial objectives. Risk appetite is a methodology to measure Northern Trust's willingness to take risk and reflects Northern Trust's tolerance of certain levels of risk exposures as measured at the enterprise and business level, as applicable. Northern Trust's Corporate Risk Appetite Statement reflects Northern Trust's expectation that risk is consciously considered as part of day-to-day activities and strategic decisions. Northern Trust manages its business activities consistent with the risk appetite statement, in which specific guidelines are detailed for credit, operational, fiduciary, compliance, market, liquidity, and strategic risk. GERC reviews the measurement and assessment of risk within the Corporation and against Northern Trust's Corporate Risk Appetite Statement. When appropriate, GERC addresses emerging risk issues and directs risk mitigation actions.

**Assessment of Risks:** Northern Trust's risk assessment process consists of a series of programs that identify, manage and measure risks. Risk assessments are performed on a regular basis by business risk management and facilitated by the Risk Management function. The risk assessment process draws on the input of management, staff and risk personnel across the business, focusing on the inherent drivers of risk, the effectiveness of controls and the resulting residual risks.

**Risk Management Embedding:** Risk management processes extend beyond risk assessment and measurement, and are embedded in strategic and business planning and decision-making. Although the Risk Management function sets the direction for Northern Trust's risk management activities, Northern Trust's businesses are the first line of defense for protecting it against the risks inherent in its businesses and are supported by dedicated business risk management teams.

**Risk Reporting, Review and Communication:** The risk reporting, review and communication process produces risk reports that provide updates on the risk profile, performance against risk guidelines and thresholds, and analysis and trend information, all of which highlight top and emerging risks for management and the Board. Risk reporting includes a robust escalation process to alert senior management of significant issues.

**Risk Control**

Risk Control is an internal, independent review function within the Risk Management function. Risk Control is managed by the Chief Risk Control Officer and is comprised of the following groups, each with its own risk focus and oversight. The Business Risk Committee oversees Risk Control and each of the groups below.

**Model Risk Management**

**Explanation of Responses:**

Financial and risk modeling are used by Northern Trust to inform numerous decisions regarding risk management, as well as capital estimation, financial reporting and disclosure, valuation and pricing and portfolio management. Model risk may result from decisions based on models that produce incorrect results or models that are improperly used. Model Risk Management is responsible for the implementation and management of the enterprise-wide model risk framework and independently validating new models and reviewing and re-validating existing models. Validations are documented and include an assessment of the conceptual soundness of the modeling approach, outcomes analysis, applicability of use, model assumptions and limitations, development documentation, ongoing monitoring and model controls. Oversight of Model Risk Management is provided by the MROC.

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Credit Review

Credit Review provides an independent, ongoing assessment of credit exposure and related credit risk management processes across Northern Trust. The scope of Credit Review activities includes all client-related transactions that give rise to credit exposure and processes that are designed to manage or monitor such exposure. Credit exposure includes credit risk inherent in the entire portfolio, as well as individual credits or transactions in the form of direct outstandings, potential exposure and contingent liabilities that are on- or off-balance sheet.

Global Compliance Testing and Independent Verification

Global Compliance Testing evaluates the effectiveness of procedures and controls designed to comply with relevant laws and regulations, as well as corresponding Northern Trust policies governing regulatory compliance activities. Global Compliance Testing identifies weaknesses that could result in regulatory compliance violations or risks to Northern Trust's businesses and monitors action plans designed to mitigate those weaknesses. Oversight of Global Compliance Testing activities is provided by the Compliance & Ethics Oversight Committee. Also included is an Independent Verification program that promotes rigor and accuracy in Northern Trust's ongoing compliance with Basel III requirements and adherence to Enhanced Prudential Standards, including Liquidity Stress Testing. The program independently verifies Northern Trust's advanced systems in order to comply with the qualification requirements related to the Advanced Internal Ratings Based and Advanced Measurement Approaches. In addition, Independent Verification performs conceptual soundness evaluations of proposed changes to the Bank's advanced systems prior to notification to regulatory authorities as required in Basel Coordination Committee Bulletin 14-2. The Independent Verification program assesses the effectiveness of the Credit Risk, Operational Risk, and Market Risk frameworks. The Independent Verification team presents an annual assessment report of its findings to the Business Risk Committee, which is required to review and approve the effectiveness of Northern Trust's advanced systems on an annual basis.

Audit Services

Audit Services is an independent control function that assesses and validates controls within Northern Trust's enterprise risk management framework. Audit Services is managed by the General Auditor with oversight from the Audit Committee. Audit Services tests the overall adequacy and effectiveness of the system of internal controls associated with the advanced systems on an ongoing basis and reports the results of these audits directly to the Audit Committee. Audit Services includes professionals with a broad range of audit and industry experience, including risk management expertise. The General Auditor reports directly to the Audit Committee and the Corporation's Chief Executive Officer.

Credit Risk

Credit risk is the risk to interest income or principal from the failure of a borrower or counterparty to perform on an obligation.

Credit Risk Overview

Credit risk is inherent in many of Northern Trust's activities. A significant component of credit risk relates to loans, leases, securities, and counterparty-related exposures. Northern Trust's loan portfolio differs significantly from those of other large U.S. financial institutions as it is generally more conservative in terms of credit risk. In particular, Northern Trust is generally:

- not an originator of loan products to be sold into a secondary market or to be bundled into asset securitizations;
- not an agent bank or syndicator of loans, where risk management is achieved post-close through the sale of participations; and
-



not a participant in leveraged financial transactions, such as project finance, private-equity-originated acquisition financing or hedge fund leveraging.

#### Credit Risk Framework and Governance

The Credit Risk Management function is the focal point of the credit risk framework and, while independent of the businesses, it works closely with them to achieve the goal of assuring proactive management of credit risk. To monitor and control credit risk, the Credit Risk Management function maintains a framework that consists of policies, standards, and practices designed to promote a conservative credit culture. This function also monitors adherence to corporate policies, standards, and external regulations.

The Credit Risk Management function provides a system of checks and balances for Northern Trust's diverse credit-related activities by monitoring these activities and practices and promoting their uniform application throughout Northern Trust. These activities are designed to diversify credit exposure on an industry and client basis and reduce overall credit risk.

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The credit risk framework provides authorities for approval of the extension of credit. Individual credit authority for commercial and personal loans is limited to specified amounts and maturities. Credit requests exceeding individual authority because of amount, rating, term or other conditions, are referred to the relevant Group Credit Approval Committee. Credit decisions involving exposure in excess of these limits require the approval of the Senior Credit Committee.

The Counterparty Risk Management Committee has sole credit authority for the approval, modification, or renewal of credit exposure to all wholesale market counterparties.

The Chief Credit Officer reports directly to the CRO. Independent oversight and review of the credit risk framework is provided by Risk Control.

Credit Risk Measurement

An integral component of credit risk measurement is Northern Trust's internal risk rating system. Northern Trust's internal risk rating system enables identification, measurement, approval and monitoring of credit risk. Northern Trust uses the Advanced Internal Rating Based approach to calculate regulatory capital using regulatory formulas and exposure level risk information from Northern Trust's internal rating system. Calculations include entity-specific information about the obligor's or counterparty's probability of default and exposure-specific information about loss given default, exposure at default and maturity. Northern Trust's internal risk rating system is intended to rank its credit risk without any modeled linkage to external credit ratings.

The Credit Risk Management function is responsible for the ongoing oversight of each model that supports the internal risk-rating system. This oversight includes the development, monitoring and maintenance of the models, as well as providing information to the Credit Risk Committee to support model approval and monitoring of ongoing model performance. Independent model governance and oversight is further supported by the activities of Risk Control.

Loans and Other Extensions of Credit

A significant component of credit risk relates to the loan portfolio, including contractual obligations such as legally binding commitments to extend credit, commercial letters of credit, and standby letters of credit. These contractual obligations and arrangements are discussed in Note 27, "Off-Balance-Sheet Financial Instruments," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data," and in the "Off-Balance-Sheet Arrangements" section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

As part of its credit process, Northern Trust utilizes an internal borrower risk rating system to support identification, approval, and monitoring of credit risk. Borrower risk ratings are used in credit underwriting, management reporting, setting of loss allowances, and capital calculations. Borrower risk ratings are discussed further in Note 6, "Loans and Leases," to the consolidated financial statements.

The Credit Risk Management function oversees a range of portfolio reviews that focus on significant and/or weaker-rated credits. This approach allows management to take remedial action in an effort to deal with potential problems. In addition, independent from the Credit Risk Management function, Credit Review undertakes both on-site and off-site file reviews that evaluate effectiveness of management's implementation of the Credit Risk Management's requirements.

Northern Trust maintains a loan portfolio watch list for adversely classified credit exposures. These credits, which include all nonperforming credits, are expected to exhibit minimally acceptable probabilities of default, elevated risk of default, or are currently in default. Loans outstanding to watch list borrowers associated with these risk profiles that are not currently in default but have limited financial flexibility totaled \$328.3 million at December 31, 2015. Cash flows and capital levels range from acceptable to potentially insufficient to meet current requirements and borrowers typically have minimal cushion in adverse down cycle scenarios. An integral part of the Credit Risk Management

function is a formal review of past due and potential problem loans to determine which credits, if any, need to be placed on nonperforming status or charged off.

#### Counterparty Credit Risk

Counterparty credit risk for Northern Trust primarily arises from over-the-counter (OTC) currency and interest rate derivatives and from indemnified securities lending transactions, which in turn are derived from a variety of funding, treasury, trading and custody-related activities. Credit exposure to counterparties is managed by use of a framework for setting limits by product type and exposure tenor.

To calculate exposure, Northern Trust treats repurchase agreements, reverse repurchase agreements and indemnified securities lending transactions as repo-style transactions. Foreign exchange exposures and interest rate derivatives are treated as OTC derivatives. The exposure at default measurement methodology for each eligible type of counterparty credit exposure, including the use of netting and collateral as risk mitigants, is determined based on operational requirements, the characteristics of the contract type and the portfolio size and complexity.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Credit Risk Mitigation

Northern Trust considers cash flow to be the primary source of repayment for client-related credit exposures. However, Northern Trust employs several different types of credit risk mitigants to manage its overall credit risk in the event cash flow is not sufficient to repay a credit exposure. Northern Trust has policies in place to ensure that credit risk mitigation is appropriately recognized, recorded and monitored. Recognition of credit risk mitigants in capital estimations is dependent upon the form of mitigation. Northern Trust broadly groups its risk mitigation techniques into the following three primary categories.

**Physical and Financial Collateral:** Northern Trust's primary risk mitigation approaches include the requirement of collateral and/or documented guarantees. Liquidation of collateral that is securing credit risk exposures is considered in Northern Trust's estimation of loss given default. Residential and commercial real estate exposures are typically secured by properly margined mortgages on the property. In cases where loans to commercial or certain Wealth Management clients are secured by marketable securities, the daily values of the securities are monitored closely to ensure adherence to collateral coverage policies. The frequency of collateral valuation increases commensurate with the volatility of the collateral's value.

**Netting:** On-balance-sheet netting is employed on a limited basis. Netting is primarily related to foreign exchange transactions with major banks and institutional clients subject to eligible master netting agreements. A sub-set of these arrangements are conducted under an ISDA Credit Support Annex. Northern Trust has elected to take the credit risk mitigation capital benefit of netting within its regulatory capital calculation at this time.

**Guarantees:** Personal and corporate guarantees are often taken to facilitate potential collection efforts and to protect Northern Trust's claims relative to other creditors. Northern Trust may also recognize "implied support," where the commitment provided is less than that of a legally enforceable guarantee, in its assignment of borrower probability of default as permitted under U.S. supervisory guidance. Northern Trust has elected not to take the credit risk mitigation capital benefit of guarantors within its regulatory capital calculation at this time.

Another important risk management practice is the avoidance of undue concentrations of exposure, such as in any single (or small number of related) obligor/counterparty, loan type, industry, geography, country or risk mitigant. Processes are in place to establish limits on certain concentrations and the monitoring of adherence to the limits.

#### Operational Risk

Operational risk is the risk of loss from inadequate or failed internal processes, human factors and systems, or from external events.

#### Operational Risk Overview

Operational risk is inherent in each of Northern Trust's businesses and corporate functions and reflects the potential for inadequate information systems, operating problems, product design and delivery difficulties, potential legal actions, or catastrophes to result in losses. Operational risk includes:

- execution, delivery and process management risk;
- risk resulting from business disruption and system failures;
- risk of damage to physical assets;
- risk resulting from clients, products and business practices;
- employment practice and workplace safety risk;
- internal fraud risk;
- external fraud risk;

#### Explanation of Responses:

compliance risk;  
fiduciary risk; and  
legal risk.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Operational risk includes compliance, fiduciary and legal risks, which under the Corporation's risk structure are governed and managed explicitly.

To monitor and control operational risk, Northern Trust maintains a framework that consists of risk management policies, programs and practices designed to promote a sound operational environment.

Northern Trust's operational risk management strategy is to:

- align the operational risk framework with evolving business and industry practice and with regulatory requirements;
- identify, assess and mitigate risks inherent in business strategies;
- promote risk awareness and foster a proactive risk management environment within each business; and
- report key topics and developments to senior governance bodies.

The goal of these activities is to keep the operational risk profile and losses within the Board-approved Corporate Risk Appetite Statement and guidelines.

The Operational Risk Management function is responsible for defining the operational risk framework and providing independent oversight of the framework across Northern Trust. It is the responsibility of each business to implement the corporate-wide operational risk framework as well as business specific risk management programs to identify, monitor, measure, and manage operational risk and mitigate Northern Trust's exposure to loss. Risk Control provides independent oversight and review of the operational risk framework.

Operational Risk Framework and Governance

The ORC is responsible for overseeing the activities of Northern Trust related to the management of operational risk. This committee has the expanded role of coordinating operational risk issues related to compliance and fiduciary risks. The purpose of this committee is to provide executive management's insight and guidance to the management of existing and emerging operational risks.

The ORC is responsible for setting the Corporate Operational Risk Management Policy and approving the operational risk framework and programs that support the coordination of operational risk activities to identify, monitor, measure, manage and report on operational risk. In addition, the ORC serves as an escalation point for significant issues raised by its programs.

Operational risk is identified, monitored, measured, managed and reported through the operational risk framework. The framework is deployed consistently and globally across all businesses and its objective is to identify and measure the factors that impact risk and drive action to reduce future loss events. Several key programs support the operational risk framework, including:

Loss Event Data Program – a program that collects loss data for use in monitoring operational risk exposure, various business analyses and a Basel Advanced Management Approach (AMA) capital quantification. Both internal and external loss data are used in the operational risk capital quantification. Thresholds drive analysis, action and escalation through Northern Trust's businesses and the Operational Risk Management function.

Risk and Control Self-Assessment – a structured risk management process used by Northern Trust's businesses to analyze the risks that are present in their respective business environments, processes and activities and to assess the adequacy of associated internal controls.

Operational Risk Scenario Analysis – a systematic process of obtaining expert opinions from business managers and risk management experts to derive reasoned assessments of the likelihood of occurrence and the potential loss impact of plausible high-severity operational losses. This process facilitates management's consideration of operational risk to which the business is exposed and the potential impact and response to such events.

Product and Process Risk Management Program – a program used for evaluating and managing risks associated with the introduction of new and modified noncredit products and services, significant changes to operating processes, and proposed business process outsourcing arrangements.

Outsourcing Risk Management Program – a program that provides processes for appropriate risk assessment, measurement, monitoring and management of outsourced technology and business process outsourcing.

Business Process Transition Risk Management Program – a program designed to effectively manage the risk associated with transitioning and migrating business processes to different geographic or jurisdictional locations within the organization.

Information Security and Technology Risk Management – a program that communicates and implements compliance and risk management processes and controls to address information security and technology risks to the organization.

Significant New Business Opportunity – a program that assesses the resource requirements, impact on systems and controls, and other risk factors prior to taking on significant new business.

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Scalability & Capacity Assessment Review – a program that provides a mechanism for identifying scalability and/or capacity constraints within Northern Trust's business areas and their ability to take on change, whether driven by new business, strategic projects, market volatility or regulatory change.

Operational Concentration Risk Management – a program that provides an assessment of process concentrations within the Corporation.

Fraud Prevention Program – a program that provides tools, advice, and guidance to Northern Trust's businesses to help mitigate fraud risk.

- Business Continuity Management Program – a program designed to minimize business impact and support the resumption of mission critical functions for clients following an incident.

Physical Security – a program that provides for the safety of Northern Trust partners, clients, and visitors worldwide by setting and enforcing standards, providing training, establishing partnerships, and encouraging continual improvement in workplace security.

Insurance Management Program – a program designed to reduce the monetary impact of certain operational loss events.

As discussed in Risk Control, Model Risk Management also is part of the operational risk framework.

Operational Risk Measurement

Northern Trust utilizes a Basel AMA capital quantification process to estimate required capital for the Corporation and applicable U.S. banking subsidiaries. Northern Trust's AMA capital quantification process incorporates outputs from the Loss Event Data, Risk and Control Self-Assessment and Operational Risk Scenario Analysis programs to derive required capital. While internal loss data is the foundation for the capital quantification, external loss data is also utilized to inform the creation of scenario analysis data employed in the capital quantification process. Business environment and internal control factor information is used to estimate loss frequency and as an adjustment to capital estimates. The AMA capital quantification process uses a Loss Distribution Approach methodology to combine frequency and severity distributions to arrive at an estimate of the potential aggregate loss at the 99.9<sup>th</sup> percentile over a one-year time horizon.

Information Security

Northern Trust's approach to information security begins at a governance level with an organizational structure which reflects support from executive management and includes risk committees comprised of members from across Northern Trust's businesses. In addition, technology risk is mitigated not only through a strong governance process, but also internal controls and risk management practices designed to keep risk at levels appropriate to Northern Trust's overall risk appetite and the inherent risk in the markets in which Northern Trust operates. The desired control environment is expressed through Northern Trust's policies, standards and guidelines that together define its tolerance for risk. Each business is responsible for complying with these policies, standards and guidelines, as well as external regulations. Where appropriate, these policies, standards and guidelines contain limits and benchmarks to facilitate the measurement, monitoring and reporting of risk.

Effective management of information and technology risk is crucial in an environment of increasing threat and requires a structured approach to establish and communicate expectations and required practices. Northern Trust employees are responsible for promoting information security and following sound technology risk management practices as well as adhering to applicable policies and standards and other means provided to them to safeguard electronic information and business systems within their care. Training and awareness programs to educate employees on information security are on-going and include multiple approaches such as mandatory computer based training. In cases where Northern Trust relies on vendors to perform services, controls are routinely reviewed for alignment with industry standards and their ability to protect information. Any findings identified are remediated following a



risk-based approach.

In addition to the various information security controls managed and monitored within the organization, Northern Trust uses external third party security teams on a regular basis to assess effectiveness. These teams perform security program maturity assessments, penetration tests, security assessments and reviews of Northern Trust's susceptibility to social engineering attacks such as spear phishing. Northern Trust operates a global security operations center for threat identification and response. This center aggregates security threat information from systems and platforms across the business, and alerts the organization in accordance with its documented Cyber Incident Response Plan.

#### Business Resiliency

Northern Trust's business resiliency approach encompasses business continuity and disaster recovery processes enterprise-wide (including staff, technology and facilities) to ensure that following a disaster or business interruption Northern Trust resumes mission-critical business functions and fulfills all regulatory and legal requirements.

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Northern Trust's business resiliency mitigation and preventative measures include sophisticated physical security, resilient designs and peer capacity for its corporate data centers, a highly redundant global network, robust network security, resiliency centers that offer alternative workstations, and transfer of work and work-from-home programs that provide further capability by allowing staff to work from home.

All of Northern Trust's businesses are required to regularly risk-assess their critical functions and develop business continuity plans covering resource requirements (people, systems, vendor relationships and other assets), arrangements for obtaining these resources and prioritizing the resumption of each function in compliance with corporate standards. The strength of the business continuity programs of all critical third-party vendors to Northern Trust are reviewed on a regular basis. All of Northern Trust's businesses test their plans at least annually. The ORC annually reviews and presents the corporate business continuity plan to the Business Risk Committee.

#### Fiduciary Risk

Fiduciary risks are risks arising from the failure, in administering or managing financial and other assets in clients' fiduciary accounts: i) to adhere to a fiduciary standard of care if required under the terms of governing documents or applicable laws; or ii) to properly discharge fiduciary duties. Fiduciary status may hinge on the nature of a particular function being performed and fiduciary standards may vary by jurisdiction, type of relationship and governing document.

#### Fiduciary Risk Overview

The Fiduciary Risk Management Program identifies, assesses, measures and monitors fiduciary risk. Fiduciary risk is mitigated through internal controls and risk management practices that are designed to identify, understand and keep such risk at levels consistent with the organization's overall risk appetite while also managing the inherent risk in each relationship for which Northern Trust serves in a fiduciary capacity. Each business is responsible for complying with all corporate policies and external regulations and for establishing specific procedures, standards and guidelines to manage fiduciary risk within the desired risk appetite level. Each business also is expected to establish procedures for enhanced review in the event a product or relationship involves unique or more complex fiduciary risks. The Corporate Fiduciary Risk Program framework utilizes existing corporate and business risk management tools to measure and guide the assessment of fiduciary risk in the businesses.

#### Fiduciary Risk Framework and Governance

The FRC is responsible for establishing and reviewing the fiduciary risk policies and establishing the fiduciary risk framework, governance and programs that support the coordination of fiduciary risk activities to identify, monitor, manage and report on fiduciary risk. At FRC meetings, senior management reviews and discusses fiduciary risks including existing and emerging issues. In addition, the FRC serves as an escalation point for significant issues raised by its subcommittees or elsewhere in the organization.

#### Compliance Risk

Compliance risk is the risk of legal or regulatory sanctions, financial loss, or damage to reputation resulting from failure to comply with laws, regulations, rules, other regulatory requirements, or codes of conduct and other standards of self-regulatory organizations applicable to Northern Trust. Compliance risk includes the following two subcategories:

- Regulatory Risk – risk arising from failure to comply with prudential and conduct of business or other regulatory requirements.

- Financial Crime Risk – risk arising from financial crime (e.g., money laundering, sanctions violations, fraud, insider dealing, theft, etc.) in relation to the products, services, or accounts of the institution, its clients, or others associated with the same.

#### Compliance Risk Framework and Governance

The compliance risk management framework identifies, assesses, controls, measures, monitors and reports on compliance risk. The framework is designed to minimize compliance risk and maintain an environment in which criminal or regulatory violations do not occur. The framework includes a comprehensive governance structure and a Compliance and Ethics Program approved by the Business Risk Committee.

Each business is responsible for the implementation and effectiveness of the Compliance and Ethics Program and specific compliance policies within their respective businesses. Each business is responsible for its respective employees' compliance with corporate policies and external regulations and for establishing specific procedures, standards and guidelines to manage compliance risk in accordance with Northern Trust's Compliance and Ethics Program.

The Compliance and Ethics Oversight Committee establishes and monitors adherence to Northern Trust's Compliance and Ethics Program. The Chief Compliance and Ethics Officer reports to the Business Risk Committee as appropriate and chairs the Compliance and Ethics Oversight Committee.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Market Risk

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

Market Risk Framework and Governance

Northern Trust maintains a market risk framework consisting of risk management policies, programs and practices to keep the market risk profile within the Board-approved Corporate Risk Appetite Statement. All market risk activities are overseen by the Corporate Market Risk function, which is independent of the businesses undertaking the activities. Independent oversight and review of the market risk framework is provided by Risk Control.

Exposure limits for market risk are set by the Board and committee structures have been established to implement and monitor adherence to corporate policies, external regulations and established procedures. ALCO and its subcommittee, the Market and Liquidity Risk Committee (MLRC), provide independent oversight and are responsible for developing the market risk management framework and programs that support the coordination of market risk activities to identify, monitor, manage and report on market risk. At ALCO and MLRC meetings, senior management reviews and discusses Northern Trust's market risk profile as well as various scenario analyses. ALCO and MLRC establish and monitor guidelines based on measures such as SOE, SEVE, VaR and notional position sizes.

Interest Rate Risk Overview

Interest rate risk is the risk to earnings, associated with the balance sheet, or value of equity due to changes in interest rates. Changes in interest rates can have a positive or negative impact on earnings depending on the positioning of assets, liabilities and off-balance-sheet instruments. The impact to earnings will primarily come through net interest income, but it can also impact certain types of fees related to the balance sheet. Changes in interest rates also can impact the values of assets, liabilities and off-balance-sheet positions, which indirectly impact the value of equity. To mitigate interest rate risk, the structure of the balance sheet is managed so that movements of interest rates on assets and liabilities (adjusted for hedges) are highly correlated, which allows Northern Trust's interest-bearing assets and liabilities to contribute to earnings even in periods of volatile interest rates.

There are four commonly recognized types of interest rate risk:

- repricing, which arises from differences in the maturity and repricing terms of assets and liabilities;
- yield curve, which arises from changes in the shape of the yield curve;
- basis, which arises from the changing relationships between rates earned and paid on different financial instruments with otherwise similar repricing characteristics; and
- embedded optionality, which arises from client or counterparty behavior in response to interest rate changes.

Interest Rate Risk Measurement, Reporting and Analysis

Northern Trust uses two primary measurement techniques to manage interest rate risk: SOE and SEVE. Simulation of earnings provides management with a short-term view of the impact of interest rate changes on future earnings. Simulation of economic value of equity 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.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Sensitivity of Earnings (SOE)

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. Each rate movement is assumed to occur gradually over a one-year period. The 100 basis point increase, for example, consists of twelve consecutive monthly increases of 8.3 basis points. The model simulations also incorporate the following assumptions:

- the balance sheet size and mix generally remains constant over the simulation horizon with maturing assets and liabilities replaced with instruments with similar terms as those that are maturing, with the exception of certain products such as securities (the assumed reinvestment of which is determined by management's strategies);
- non-maturity deposits, of which some recent increases are assumed to be temporary in nature; and long-term fixed rate borrowings that upon maturity are replaced with overnight wholesale instruments;
- prepayments on mortgage loans and securities collateralized by mortgages are projected under each rate scenario using a third-party mortgage analytics system that incorporates market prepayment assumptions;
- cash flows for structured securities are estimated using a third-party vendor in conjunction with the prepayments provided by the third-party mortgage analytics vendor;
- non-maturity deposit rates are projected based on Northern Trust's actual historical pattern of pricing these products, or based on judgment when there is no appropriate history or when current pricing strategies differ from history;
- commercial demand deposits are treated as short-term rate sensitive as these balances may receive an explicit interest rate or an earnings credit that can be applied to fees for services provided by Northern Trust; and
- new business rates are based on current spreads to market indices.

The following table shows the estimated impact on the next twelve months of pre-tax earnings, excluding fee waivers, 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.

(\$ In Millions)	INCREASE/(DECREASE)
	ESTIMATED IMPACT ON NEXT TWELVE MONTHS OF PRE-TAX EARNINGS:
<b>INCREASE IN INTEREST RATES ABOVE MARKET IMPLIED FORWARD RATES</b>	
100 Basis Points	\$ (2 )
200 Basis Points	(31 )

Stress testing of interest rates is performed to include such scenarios as immediate parallel shocks to rates, nonparallel (i.e. twist) changes to yield curves that results in them becoming steeper or flatter, and changes to the relationship among the yield curves (i.e. basis risk).

The simulations of earnings do not incorporate any management actions that may be used to mitigate negative consequences of actual interest rate movements, including money market mutual fund fee waivers. 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.

During the year ended December 31, 2015, Northern Trust did not exceed its SOE limits.

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## Sensitivity of Economic Value of Equity (SEVE)

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 SEVE if current rates are immediately shocked up by 100 or 200 basis points. The model simulations also incorporate the following assumptions:

- prepayments on mortgage loans and securities collateralized by mortgages are projected under each rate scenario using a third-party mortgage analytics system that incorporates market prepayment assumptions;
- cash flows for structured securities are estimated using a third-party vendor in conjunction with the prepayments provided by the third-party mortgage analytics vendor;
- nonmaturity deposit rates are projected based on Northern Trust's actual historical pattern of pricing. Projected rates may also be based on judgment when there is no appropriate history or when current pricing strategies differ from history. The present value of these deposits are based on estimated remaining lives that are based on Northern Trust's actual historical runoff patterns with some balances assumed to be temporary;
- the present values of most noninterest-related balances (such as receivables, equipment, and payables) are the same as their book values; and
- the initial shock to current rates assumes the relationship among market yield curves (e.g. Treasury and Libor) remains the same in each interest rate scenario.

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 40: INTEREST RATE RISK SIMULATION OF ECONOMIC VALUE OF EQUITY AS OF DECEMBER 31, 2015

(\$ In Millions)	INCREASE/(DECREASE)
	ESTIMATED IMPACT ON ECONOMIC VALUE OF EQUITY
INCREASE IN INTEREST RATES ABOVE MARKET IMPLIED FORWARD RATES	
100 Basis Points	\$ (133 )
200 Basis Points	(427 )

Stress testing of interest rates is performed to include such scenarios as nonparallel (i.e. twist) changes to yield curves that results in them becoming steeper or flatter and changes to the relationship among the yield curves (i.e. basis risk). The simulations of economic value of equity 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.

During the year ended December 31, 2015, Northern Trust did not exceed its SEVE limits.



### Interest Rate Risk Monitoring

Northern Trust limits aggregate interest rate risk (as measured by the SOE and SEVE simulation techniques) to an acceptable level within the context of risk/return trade-offs. A variety of actions may be used to implement risk management strategies to modify interest rate risk including:

- purchase of securities;
- sale of securities that are classified as available for sale;
- issuance of senior notes and subordinated notes;
- collateralized borrowings from the Federal Home Loan Bank;
- placing and taking Eurodollar time deposits; and
- hedges with various types of derivative financial instruments.

Northern Trust strives to use the most effective instruments for implementing its interest rate risk management strategies, considering the costs, liquidity, collateral and capital requirements of the various alternatives and the risk-return trade-offs.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Foreign Currency Risk Overview

Northern Trust's balance sheet is exposed to non-trading foreign currency risk as a result of its holdings of non-U.S. dollar denominated assets and liabilities, investment in non-U.S. subsidiaries, and future non-U.S. dollar denominated revenue and expense. To manage currency exposures on the balance sheet, Northern Trust attempts to match its assets and liabilities by currency. If those currency offsets do not exist on the balance sheet, Northern Trust will use foreign exchange derivative contracts to mitigate its currency exposure. Foreign exchange contracts are also used to reduce Northern Trust's currency exposure to future non-U.S. dollar denominated revenue and expense.

In addition, Northern Trust provides foreign exchange services to clients. Most of these services are provided in connection with Northern Trust's growing global custody business. In the normal course of business Northern Trust also engages in trading of non-U.S. currencies for its own account. Both activities are considered trading activities. The primary market risk associated with global foreign exchange trading activities is foreign exchange risk. Foreign currency trading positions exist when aggregate obligations to purchase and sell a currency other than the U.S. dollar do not offset each other in amount, or offset each other over different time periods.

## Foreign Currency Risk Measurement

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.

VaR measures are computed in a vended software application which reads foreign exchange positions from Northern Trust's trading systems each day. Data vendors provide foreign exchange rates and interest rates for all currencies. The Corporate Market Risk function monitors on a daily basis VaR model inputs and outputs for reasonableness.

## Foreign Currency Risk Monitoring, Reporting and Analysis

Northern Trust monitors several variations of the foreign exchange VaR measures to meet specific regulatory and internal management needs. Variations include different methodologies (historical, variance-covariance and Monte Carlo), equally-weighted and exponentially-weighted volatilities, horizons of one day and ten days, confidence levels ranging from 95% to 99.95% and look back periods of one year and four years. Those alternative measures provide management a rich array of corroborating metrics and alternative perspectives on Northern Trust's market risks. Automated daily reports are produced and distributed to business managers and risk managers. The Corporate Market Risk function also reviews and reports several variations of the VaR measures in historical time series format to provide management with a historical perspective on risk.

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

TABLE 41: FOREIGN CURRENCY VALUE-AT-RISK

(\$ In Millions)	VaR	TOTAL		FOREIGN		FOREIGN EXCHANGE FORWARD VaR
		(SPOT AND FORWARD)	EXCHANGE	SPOT VaR		
As of December 31	2015	2014	2015	2014	2015	2014
High	\$0.6	\$0.5	\$0.5	\$0.5	\$ 0.5	\$ 0.1

Explanation of Responses:

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Low	0.1	—	—	—	0.1	—
Average	0.3	0.2	0.2	0.1	0.3	0.1
Year-End	0.3	0.2	0.1	0.3	0.3	0.1

During 2015 and 2014, Northern Trust did not incur an actual trading loss in excess of the daily value at risk estimate.

Other Nonmaterial Trading Activities

Market risk associated with other trading activities is negligible. Northern Trust's broker-dealer, Northern Trust Securities, Inc., maintains a small portfolio of trading securities held for customer accommodation purposes which averaged \$4.0 million for the year ended December 31, 2015.

Northern Trust is also party to interest rate derivative contracts consisting mostly of interest rate swaps entered into to meet clients' interest rate management needs, but also including a small number of caps, floors, and swaptions (an option to enter into an interest rate swap). All interest rate derivative transactions are executed by the Treasury department. When

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Northern Trust enters into client transactions, its practice is to mitigate the resulting market risk with offsetting interbank derivative transactions with matching terms and maturities.

Strategic Risk

Strategic Risk is the long-term risk to earnings or capital from adverse effects of business decisions, improper implementation of business decisions, unexpected external events or damage to Northern Trust's reputation from negative public opinion. Strategic risk includes the following three subcategories:

Business Risk: the risk arising from the general economic conditions and external factors in which Northern Trust operates that could adversely affect its revenues, profits and or capital;

Strategy Risk: the long-term risk to earnings or capital from adverse effects of business decisions, improper implementation of business decisions and unexpected external events; and

Reputation Risk: the risk arising from negative perception on the part of clients, counterparties, stockholders, investors, debt holders, market analysts, regulators, staff, or other relevant parties that adversely affects Northern Trust's ability to conduct its business or to access sources of funding.

GERC and the Business Risk Committee are responsible for reviewing the general methods, guidelines and policies by which Northern Trust monitors and controls strategic risk.

FORWARD-LOOKING STATEMENTS

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

- financial market disruptions or economic recession, whether in the United States, Europe, the Middle East, Asia or other regions;
- volatility or changes in financial markets, including debt and equity markets, that impact the value, liquidity, or credit ratings of financial assets in general, or financial assets held in particular investment funds or client portfolios, including those funds, portfolios, and other financial assets with respect to which Northern Trust has taken, or may in the future take, actions to provide asset value stability or additional liquidity;
- the impact of equity markets on fee revenue;
- the downgrade of U.S. government-issued and other securities;
- changes in foreign exchange trading client volumes and volatility in foreign currency exchange rates, changes in the valuation of the U.S. dollar relative to other currencies in which Northern Trust records revenue or accrues expenses, and Northern Trust's success in assessing and mitigating the risks arising from all such changes and volatility;
- a decline in the value of securities held in Northern Trust's investment portfolio, particularly asset-backed securities, the liquidity and pricing of which may be negatively impacted by periods of economic turmoil and financial

market disruptions;

Northern Trust's ability to address operating risks, including cyber-security or data security breach risks, human errors or omissions, pricing or valuation of securities, fraud, systems performance or defects, systems interruptions, and breakdowns in processes or internal controls;

Northern Trust's success in responding to and investing in changes and advancements in technology;

a significant downgrade of any of Northern Trust's debt ratings;

the health and soundness of the financial institutions and other counterparties with which Northern Trust conducts business;

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

uncertainties inherent in the complex and subjective judgments required to assess credit risk and establish appropriate allowances therefor;

the pace and extent of continued globalization of investment activity and growth in worldwide financial assets;

changes in interest rates or in the monetary or other policies of various regulatory authorities or central banks;

changes in the legal, regulatory and enforcement framework and oversight applicable to financial institutions, including changes that may affect leverage limits and risk-based capital and liquidity requirements, require financial institutions to pay higher assessments, expose financial institutions to certain liabilities of their subsidiary depository institutions, or restrict or increase the regulation of certain activities carried on by financial institutions, including Northern Trust;

increased costs of compliance and other risks associated with changes in regulation, the current regulatory environment, and areas of increased regulatory emphasis and oversight in the United States and other countries, such as anti-money laundering, anti-bribery, and client privacy;

failure to satisfy regulatory standards or to obtain regulatory approvals when required, including for the use and distribution of capital;

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

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

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

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

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

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

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

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

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

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

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

risks and uncertainties inherent in the litigation and regulatory process, including the adequacy of contingent liability, tax, and other accruals;

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

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

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

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

forward-looking statements.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RECONCILIATION OF REPORTED NET INTEREST INCOME TO FULLY TAXABLE EQUIVALENT

The table below presents a reconciliation of interest income and net interest income prepared in accordance with GAAP to interest income and net interest income on a FTE basis, which are non-GAAP financial measures.

Management believes this presentation provides a clearer indication of net interest margins for comparative purposes.

TABLE 42: RECONCILIATION OF REPORTED NET INTEREST INCOME TO FULLY TAXABLE EQUIVALENT

(\$ In Millions)	FOR THE YEAR ENDED DECEMBER 31,									
	2015			2014			2013			
	REPORTED	FTE ADJ	FTE	REPORTED	FTE ADJ	FTE	REPORTED	FTE ADJ	FTE	
Interest Income	\$1,224.0	\$25.3	\$1,249.3	\$1,186.9	\$29.4	\$1,216.3	\$1,155.5	\$32.5	\$1,188.0	
Interest Expense	153.9	—	153.9	181.4	—	181.4	222.4	—	222.4	
Net Interest Income	\$1,070.1	\$25.3	\$1,095.4	\$1,005.5	\$29.4	\$1,034.9	\$933.1	\$32.5	\$965.6	
Net Interest Margin	1.05	%	1.07	%	1.05	%	1.08	%	1.09	%

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ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is incorporated herein by reference to the “Risk Management” section of Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of this Annual Report on Form 10-K.

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ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

In addition to the Report of Independent Registered Public Accounting Firm and the consolidated financial statements and accompanying notes provided below, the table titled “Quarterly Financial Data (Unaudited)” under “Supplemental Item – Selected Statistical and Supplemental Financial Data” is incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND STOCKHOLDERS OF NORTHERN TRUST CORPORATION:

We have audited the accompanying consolidated balance sheets of Northern Trust Corporation and subsidiaries (Northern Trust) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of Northern Trust’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern Trust Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Northern Trust Corporation’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 29, 2016 expressed an unqualified opinion on the effectiveness of Northern Trust Corporation’s internal control over financial reporting.

CHICAGO, ILLINOIS  
FEBRUARY 29, 2016

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## CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

	DECEMBER	
	31,	
(In Millions Except Share Information)	2015	2014
<b>ASSETS</b>		
Cash and Due from Banks	\$6,444.6	\$3,050.6
Federal Funds Sold and Securities Purchased under Agreements to Resell	1,614.2	1,062.7
Interest-Bearing Deposits with Banks	14,143.1	14,928.3
Federal Reserve Deposits	16,398.5	17,386.3
Securities		
Available for Sale	32,317.9	29,558.5
Held to Maturity (Fair value of \$5,227.5 and \$4,176.1)	5,248.3	4,170.8
Trading Account	1.2	4.7
<b>Total Securities</b>	<b>37,567.4</b>	<b>33,734.0</b>
Loans and Leases		
Commercial	15,156.5	14,353.6
Personal	18,024.4	17,286.6
<b>Total Loans and Leases (Net of unearned income of \$103.6 and \$287.7)</b>	<b>33,180.9</b>	<b>31,640.2</b>
Allowance for Credit Losses Assigned to Loans and Leases	(193.8	)(267.0 )
Buildings and Equipment	446.9	444.3
Client Security Settlement Receivables	2,157.0	1,568.8
Goodwill	526.4	533.2
Other Assets	4,464.4	5,865.1
<b>Total Assets</b>	<b>\$116,749.6</b>	<b>\$109,946.5</b>
<b>LIABILITIES</b>		
Deposits		
Demand and Other Noninterest-Bearing	\$23,435.5	\$22,815.0
Savings and Money Market	15,035.9	15,916.4
Savings Certificates and Other Time	1,455.8	1,757.4
Non-U.S. Offices – Noninterest-Bearing	6,719.9	2,723.2
– Interest-Bearing	50,221.8	47,545.0
<b>Total Deposits</b>	<b>96,868.9</b>	<b>90,757.0</b>
Federal Funds Purchased	351.5	932.9
Securities Sold under Agreements to Repurchase	546.6	885.1
Other Borrowings	4,055.1	1,685.2
Senior Notes	1,497.4	1,497.0
Long-Term Debt	1,371.3	1,615.1
Floating Rate Capital Debt	277.3	277.2
Other Liabilities	3,075.6	3,848.1
<b>Total Liabilities</b>	<b>108,043.7</b>	<b>101,497.6</b>

## STOCKHOLDERS' EQUITY

Preferred Stock, No Par Value; Authorized 10,000,000 shares: Series C, Outstanding shares of 16,000 and 16,000	388.5	388.5
Common Stock, \$1.66 2/3 Par Value; Authorized 560,000,000 shares; Outstanding shares of 229,293,783 and 233,390,705	408.6	408.6
Additional Paid-in Capital	1,072.3	1,050.9
Retained Earnings	8,242.8	7,625.4
Accumulated Other Comprehensive Loss	(372.7)	(319.7)
Treasury Stock (15,877,741 and 11,780,819 shares, at cost)	(1,033.6)	(704.8)
Total Stockholders' Equity	8,705.9	8,448.9
Total Liabilities and Stockholders' Equity	\$116,749.6	\$109,946.5

See accompanying notes to consolidated financial statements on pages 90-159.

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## CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF INCOME

	FOR THE YEAR ENDED		
	DECEMBER 31,		
(In Millions Except Share Information)	2015	2014	2013
Noninterest Income			
Trust, Investment and Other Servicing Fees	\$2,980.5	\$2,832.8	\$2,609.8
Foreign Exchange Trading Income	261.8	210.1	244.4
Treasury Management Fees	64.7	66.0	69.0
Security Commissions and Trading Income	78.7	67.6	68.0
Other Operating Income	247.1	153.5	166.5
Investment Security Losses, net (Note)	(0.3	)(4.3	)(1.5
Total Noninterest Income	3,632.5	3,325.7	3,156.2
Net Interest Income			
Interest Income	1,224.0	1,186.9	1,155.5
Interest Expense	153.9	181.4	222.4
Net Interest Income	1,070.1	1,005.5	933.1
Provision for Credit Losses	(43.0	)6.0	20.0
Net Interest Income after Provision for Credit Losses	1,113.1	999.5	913.1
Noninterest Expense			
Compensation	1,443.3	1,417.9	1,306.6
Employee Benefits	285.3	268.7	257.5
Outside Services	595.7	574.6	564.1
Equipment and Software	454.8	421.4	377.6
Occupancy	173.5	180.3	173.8
Other Operating Expense	328.0	272.1	314.2
Total Noninterest Expense	3,280.6	3,135.0	2,993.8
Income before Income Taxes	1,465.0	1,190.2	1,075.5
Provision for Income Taxes	491.2	378.4	344.2
NET INCOME	\$973.8	\$811.8	\$731.3
Preferred Stock Dividends	23.4	9.5	—
Net Income Applicable to Common Stock	\$950.4	\$802.3	\$731.3
PER COMMON SHARE			
Net Income – Basic	\$4.03	\$3.34	\$3.01
– Diluted	3.99	3.32	2.99
Average Number of Common Shares Outstanding – Basic	232,279,849	235,829,790	239,265,313
– Diluted	234,221,729	237,720,255	240,554,840
Note: Changes in Other-Than-Temporary-Impairment (OTTI) Losses	\$—	\$(4.9	)\$—
Noncredit-related OTTI Losses Recorded in (Reclassified from) OCI	—	0.7	—
Other Security Losses, net	(0.3	)(0.1	)(1.5
Investment Security Losses, net	\$(0.3	)\$(4.3	)\$(1.5

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	FOR THE YEAR ENDED		
	DECEMBER 31,		
(In Millions)	2015	2014	2013
Net Income	\$973.8	\$811.8	\$731.3
Other Comprehensive Income (Loss) (Net of Tax and Reclassifications)			
Net Unrealized Gains (Losses) on Securities Available for Sale	(58.6	)21.6	(95.0

Explanation of Responses:

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Net Unrealized (Losses) Gains on Cash Flow Hedges	1.7	(7.6	)4.3	
Foreign Currency Translation Adjustments	(15.9	) (8.8	) (3.4	)
Pension and Other Postretirement Benefit Adjustments	19.8	(80.6	) 132.8	
Other Comprehensive (Loss) Income	(53.0	) (75.4	) 38.7	
Comprehensive Income	\$920.8	\$736.4	\$770.0	

See accompanying notes to consolidated financial statements on pages 90-159.

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## CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
<b>PREFERRED STOCK</b>			
Balance at January 1	\$388.5	\$—	\$—
Issuance of Preferred Stock, Series C	—	388.5	—
Balance at December 31	388.5	388.5	—
<b>COMMON STOCK</b>			
Balance at January 1 and December 31	408.6	408.6	408.6
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Balance at January 1	1,050.9	1,035.7	1,012.7
Treasury Stock Transactions – Stock Options and Awards	(74.0	) (71.1	) (55.0
Stock Options and Awards – Amortization	77.7	77.5	75.0
Stock Options and Awards – Tax Benefits	17.7	8.8	3.0
Balance at December 31	1,072.3	1,050.9	1,035.7
<b>RETAINED EARNINGS</b>			
Balance at January 1	7,625.4	7,134.8	6,702.7
Net Income	973.8	811.8	731.3
Dividends Declared – Common Stock	(333.0	) (311.7	) (299.2
Dividends Declared – Preferred Stock	(23.4	) (9.5	) —
Balance at December 31	8,242.8	7,625.4	7,134.8
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Balance at January 1	(319.7	) (244.3	) (283.0
Net Unrealized Gains (Losses) on Securities Available for Sale	(58.6	) 21.6	(95.0
Net Unrealized (Losses) Gains on Cash Flow Hedges	1.7	(7.6	) 4.3
Foreign Currency Translation Adjustments	(15.9	) (8.8	) (3.4
Pension and Other Postretirement Benefit Adjustments	19.8	(80.6	) 132.8
Balance at December 31	(372.7	) (319.7	) (244.3
<b>TREASURY STOCK</b>			
Balance at January 1	(704.8	) (422.8	) (314.0
Stock Options and Awards	168.1	198.7	201.2
Stock Purchased	(496.9	) (480.7	) (310.0
Balance at December 31	(1,033.6	) (704.8	) (422.8
Total Stockholders' Equity at December 31	\$8,705.9	\$8,448.9	\$7,912.0

See accompanying notes to consolidated financial statements on pages 90-159.





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## CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED		
	DECEMBER 31,		
(In Millions)	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$973.8	\$811.8	\$731.3
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Investment Security Losses (Gains), net	0.3	4.3	1.5
Amortization and Accretion of Securities and Unearned Income, net	53.3	34.8	44.7
Provision for Credit Losses	(43.0)	)6.0	20.0
Depreciation on Buildings and Equipment	90.4	90.6	92.3
Amortization of Computer Software	250.3	225.6	205.1
Amortization of Intangibles	10.9	19.5	21.1
Change in Accrued Income Taxes	206.8	55.2	(31.5)
Pension Plan Contributions	(21.1)	)(18.7	)(20.7)
Deferred Income Tax Provision	(146.2)	)(36.4	)66.6
Change in Receivables	(16.2)	)20.9	(206.2)
Change in Interest Payable	(8.2)	)(4.5	)(11.2)
Change in Collateral With Derivative Counterparties, net	801.4	(359.2)	)(250.6)
Other Operating Activities, net	(318.1)	)86.1	176.9
Net Cash Provided by Operating Activities	1,834.4	936.0	839.3
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net Change in Federal Funds Sold and Securities Purchased under Agreements to Resell	(549.8)	)(533.1	)(468.8)
Change in Interest-Bearing Deposits with Banks	(144.9)	)3,297.2	(782.1)
Net Change in Federal Reserve Deposits	987.8	(4,474.8)	)(5,292.1)
Purchases of Securities – Held to Maturity	(8,075.5)	)(7,138.7	)(5,715.5)
Proceeds from Maturity and Redemption of Securities – Held to Maturity	6,628.3	4,907.7	5,853.9
Purchases of Securities – Available for Sale	(11,490.3)	)(12,668.0	)(8,168.0)
Proceeds from Sale, Maturity and Redemption of Securities – Available for Sale	8,576.1	11,476.6	8,456.4
Change in Loans and Leases	(1,581.0)	)(2,288.3	)17.8
Purchases of Buildings and Equipment	(98.5)	)(81.9	)(91.9)
Purchases and Development of Computer Software	(335.0)	)(327.6	)(293.0)
Change in Client Security Settlement Receivables	(605.0)	)(224.1	)690.6
Other Investing Activities, net	(212.9)	)(157.4	)109.4
Net Cash Used in Investing Activities	(6,900.7)	)(8,212.4	)(5,683.3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Change in Deposits	8,105.7	8,487.7	2,938.9
Change in Federal Funds Purchased	(581.4)	)(32.2	)184.9
Change in Securities Sold under Agreements to Repurchase	(338.5)	)(32.2	)217.5
Change in Short-Term Other Borrowings	2,312.8	(164.3)	)1,258.8
Proceeds from Senior Notes and Long-Term Debt	—	—	750.0
Repayments of Senior Notes and Long-Term Debt	(231.0)	)(640.0	)(804.4)
Contingent Consideration Liability Payment	—	(55.3)	)—
Proceeds from Issuance of Preferred Stock – Series C	—	388.5	—
Treasury Stock Purchased	(496.9)	)(480.7	)(309.7)

Explanation of Responses:

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Net Proceeds from Stock Options	94.0	127.5	146.2	
Cash Dividends Paid on Common Stock	(321.4	) (302.9	) (220.6	)
Cash Dividends Paid on Preferred Stock	(27.0	) —	—	
Other Financing Activities, net	17.8	(222.4	) 226.7	
Net Cash Provided by Financing Activities	8,534.1	7,073.7	4,388.3	
Effect of Foreign Currency Exchange Rates on Cash	(73.8	) 90.9	(134.6	)
Increase (Decrease) in Cash and Due from Banks	3,394.0	(111.8	) (590.3	)
Cash and Due from Banks at Beginning of Year	3,050.6	3,162.4	3,752.7	
Cash and Due from Banks at End of Year	\$6,444.6	\$3,050.6	\$3,162.4	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Interest Paid	\$161.6	\$186.5	\$231.9	
Income Taxes Paid	390.0	279.2	262.6	
Transfers from Loans to OREO	13.0	21.4	24.7	

See accompanying notes to consolidated financial statements on pages 90-159.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and reporting practices prescribed for the banking industry. A description of the more significant accounting policies follows.

A. Basis of Presentation. The consolidated financial statements include the accounts of Northern Trust Corporation (Corporation) and its wholly-owned subsidiary, The Northern Trust Company (Bank), and various other wholly-owned subsidiaries of the Corporation and Bank. Throughout the notes, the term “Northern Trust” refers to the Corporation and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The consolidated statements of income include results of acquired subsidiaries from the dates of acquisition. Certain prior-year balances have been reclassified consistent with the current-year’s presentation.

B. Nature of Operations. The Corporation is a bank holding company that has elected to be a financial holding company under the Bank Holding Company Act of 1956, as amended. The Bank is an Illinois banking corporation headquartered in Chicago and the Corporation’s principal subsidiary. The Corporation conducts business in the United States (U.S.) and internationally through various U.S. and non-U.S. subsidiaries, including the Bank. Northern Trust generates the majority of its revenue from 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.

C&IS is a leading global provider of asset servicing and related services to corporate and public retirement funds, foundations, endowments, fund managers, insurance companies, sovereign wealth funds, and other institutional investors around the globe. Asset servicing and related services encompass a full range of capabilities including but not limited to: global custody; fund administration; investment operations outsourcing; investment management; investment risk and analytical services; employee benefit services; securities lending; foreign exchange; treasury management; brokerage services; transition management services; banking and cash management. Client relationships are managed through the Bank and the Bank’s and the Corporation’s other subsidiaries, including support from locations in North America, Europe, the Middle East, and the Asia-Pacific region.

Wealth Management focuses on high-net-worth individuals and families, business owners, executives, professionals, retirees, and established privately-held businesses in its target markets. The business also includes the Global Family Office, which provides customized services to meet the complex financial needs of individuals and family offices in the United States and throughout the world with assets typically exceeding \$200 million. In supporting these targeted segments, Wealth Management provides trust, investment management, custody, and philanthropic services; financial consulting; guardianship and estate administration; family business consulting; family financial education; brokerage services; and private and business banking. Wealth Management services are delivered by multidisciplinary teams through a network of offices in 18 U.S. states and Washington, D.C., as well as offices in London, Guernsey, and Abu Dhabi.

C. Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

D. Foreign Currency Remeasurement and Translation. Asset and liability accounts denominated in nonfunctional currencies are remeasured into functional currencies at period end rates of exchange, except for certain balance sheet items including buildings and equipment, goodwill and other intangible assets, which are remeasured at historical exchange rates. Results from remeasurement of asset and liability accounts are reported in other operating income as currency translation gains (losses), net. Income and expense accounts are remeasured at period average rates of

exchange.

Asset and liability accounts of entities with functional currencies that are not the U.S. dollar are translated at period end rates of exchange. Income and expense accounts are translated at period average rates of exchange. Translation adjustments, net of applicable taxes, are reported directly to accumulated other comprehensive income (AOCI), a component of stockholders' equity.

E. Securities. Securities Available for Sale are reported at fair value, with unrealized gains and losses credited or charged, net of the tax effect, to AOCI. Realized gains and losses on securities available for sale are determined on a specific identification basis and are reported within other security gains (losses), net, in the consolidated statements of

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

income. Interest income is recorded on the accrual basis, adjusted for the amortization of premium and accretion of discount.

Securities Held to Maturity consist of debt securities that management intends to, and Northern Trust has the ability to, hold until maturity. Such securities are reported at cost, adjusted for amortization of premium and accretion of discount. Interest income is recorded on the accrual basis adjusted for the amortization of premium and accretion of discount.

Securities Held for Trading are stated at fair value. Realized and unrealized gains and losses on securities held for trading are reported in the consolidated statements of income within security commissions and trading income.

Nonmarketable Securities primarily consist of Federal Reserve and Federal Home Loan Bank stock and community development investments, each of which are recorded in other assets on the consolidated balance sheets. Federal Reserve and Federal Home Loan Bank stock are reported at cost, which represents redemption value. Community development investments are typically reported at amortized cost. Those community development investments that are designed to generate a return primarily through realization of tax credits and other tax benefits, which are discussed in further detail in Note 28, "Variable Interest Entities," are reported at amortized cost using the effective yield method or proportional amortization method and amortized over the lives of the related tax credits and other tax benefits.

Other-Than-Temporary Impairment (OTTI). A security is considered to be other-than-temporarily impaired if the present value of cash flows expected to be collected are less than the security's amortized cost basis (the difference being defined as the credit loss) or if the fair value of the security is less than the security's amortized cost basis and the investor intends, or more-likely-than-not will be required, to sell the security before recovery of the security's amortized cost basis. If OTTI exists, the charge to earnings is limited to the amount of credit loss if the investor does not intend to sell the security, and it is more-likely-than-not that it will not be required to sell the security, before recovery of the security's amortized cost basis. Any remaining difference between fair value and amortized cost is recognized in AOCI, net of applicable taxes. Otherwise, the entire difference between fair value and amortized cost is charged to earnings.

F. Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase. 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 any 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.

G. Derivative Financial Instruments. Northern Trust is a party to various derivative instruments that are used in the normal course of business to meet the needs of its clients; as part of its trading activity for its own account; and as part of its risk management activities. These instruments include foreign exchange contracts, interest rate contracts, total return swaps and credit default swap contracts. Derivative financial instruments are recorded on the consolidated balance sheets at fair value within other assets and other liabilities. Derivative asset and liability positions with the same counterparty are reflected on a net basis on the consolidated balance sheets in cases where legally enforceable master netting arrangements or similar agreements exist. Derivative assets and liabilities are further reduced by cash collateral received from, and deposited with, derivative counterparties. The accounting for changes in the fair value of a derivative in the consolidated statements of income depends on whether or not the contract has been designated as a hedge and qualifies for hedge accounting under GAAP. Derivative financial instruments are recorded on the consolidated statements of cash flows within the line item, 'other operating activities, net,' except for net investment hedges which are recorded within 'other investing activities, net'.

Changes in the fair value of client-related and trading derivative instruments, which are not designated hedges under GAAP, are recognized currently in either foreign exchange trading income or security commissions and trading income. Changes in the fair value of derivative instruments entered into for risk management purposes but not

designated as hedges are recognized currently in other operating income. Certain derivative instruments used by Northern Trust to manage risk are formally designated and qualify for hedge accounting as fair value, cash flow, or net investment hedges.

Derivatives designated as fair value hedges are used to limit Northern Trust's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. Changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability attributable to the hedged risk are recognized currently in income. For substantially all fair value hedges, Northern Trust applies the "shortcut" method of accounting, available under GAAP, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. For fair value hedges that do not qualify for the "shortcut" method of accounting, Northern Trust utilizes regression analysis, a "long-haul" method of

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accounting, in assessing whether these hedging relationships are highly effective at inception and quarterly thereafter. Ineffectiveness resulting from fair value hedges is recorded in either interest income or interest expense.

Derivatives designated as cash flow hedges are used to minimize the variability in cash flows of earning assets or forecasted transactions caused by movements in interest or foreign exchange rates. The effective portion of changes in the fair value of such derivatives is recognized in AOCI, a component of stockholders' equity, and there is no change to the accounting for the hedged item. Balances in AOCI are reclassified to earnings when the hedged forecasted transaction impacts earnings. Northern Trust applies the "shortcut" method of accounting for cash flow hedges of certain available for sale investment securities. For cash flow hedges of certain other available for sale investment securities and forecasted foreign currency denominated revenue and expenditure transactions, Northern Trust closely matches all terms of the hedged item and hedging derivative at inception and on an ongoing basis which limits hedge ineffectiveness. For cash flow hedges of available for sale investment securities, to the extent all terms are not perfectly matched, effectiveness is assessed using regression analysis and any ineffectiveness is measured using the hypothetical derivative method. For cash flow hedges of forecasted foreign currency denominated revenue and expenditure transactions, to the extent all terms are not perfectly matched, effectiveness is assessed using the dollar-offset method and any ineffectiveness is measured using the hypothetical derivative method. Any ineffectiveness is recognized currently in earnings.

Foreign exchange contracts and qualifying non-derivative instruments designated as net investment hedges are used to minimize Northern Trust's exposure to variability in the foreign currency translation of net investments in non-U.S. branches and subsidiaries. The effective portion of changes in the fair value of the hedging instrument is recognized in AOCI consistent with the related translation gains and losses of the hedged net investment. For net investment hedges, all critical terms of the hedged item and the hedging instrument are matched at inception and on an ongoing basis to minimize the risk of hedge ineffectiveness. To the extent all terms are not perfectly matched, any ineffectiveness is measured using the hypothetical derivative method. Ineffectiveness resulting from net investment hedges is recorded in other operating income. Amounts recorded in AOCI are reclassified to earnings only upon the sale or liquidation of an investment in a non-U.S. branch or subsidiary.

Fair value, cash flow, and net investment hedges are designated and formally documented as such contemporaneous with the transaction. The formal documentation describes the hedge relationship and identifies the hedging instruments and hedged items. Included in the documentation is a discussion of the risk management objectives and strategies for undertaking such hedges, the nature of the risk being hedged, a description of the method for assessing hedge effectiveness at inception and on an ongoing basis, as well as the method that will be used to measure hedge ineffectiveness. For hedges that do not qualify for the "shortcut" or the critical terms match methods of accounting, a formal assessment is performed on a calendar quarter basis to verify that derivatives used in hedging transactions continue to be highly effective in offsetting the changes in fair value or cash flows of the hedged item. Hedge accounting is discontinued if a derivative ceases to be highly effective, matures, is terminated or sold, if a hedged forecasted transaction is no longer expected to occur, or if Northern Trust removes the derivative's hedge designation. Subsequent gains and losses on these derivatives are included in foreign exchange trading income or security commissions and trading income. For discontinued cash flow hedges, the accumulated gain or loss on the derivative remains in AOCI and is reclassified to earnings in the period in which the previously hedged forecasted transaction impacts earnings or is no longer probable of occurring. For discontinued fair value hedges, the previously hedged asset or liability ceases to be adjusted for changes in its fair value. Previous adjustments to the hedged item are amortized over the remaining life of the hedged item.

H. Loans and Leases. Loans and leases are recognized assets that represent a contractual right to receive money either on demand or on fixed or determinable dates. Loans and leases are disaggregated for disclosure purposes by portfolio segment (segment) and by class. Segment is defined as the level at which management develops and documents a systematic methodology to determine the allowance for credit losses. Northern Trust has defined its segments as commercial and personal. A class of loans and leases is a subset of a segment, the components of which has similar risk characteristics, measurement attributes, or risk monitoring methods. The classes within the commercial segment

have been defined as commercial and institutional, commercial real estate, lease financing, net, non-US and other. The classes within the personal segment have been defined as residential real estate, private client and other.

Loan Classification. Loans that are held for investment are reported at the principal amount outstanding, net of unearned income. Loans classified as held for sale are reported at the lower of aggregate cost or fair value. Loan commitments for residential real estate loans that will be classified as held for sale at the time of funding and which have an interest rate lock are recorded on the balance sheet at fair value with subsequent gains or losses recognized in other operating income. Unrealized gains on these loan commitments are reported as other assets, with unrealized losses reported as other liabilities. Other undrawn commitments relating to loans that are not held for sale are recorded in other liabilities and are carried at the amount of unamortized fees with an allowance for credit loss liability recognized for any estimated probable losses.



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Recognition of Income. Interest income on loans is recorded on an accrual basis unless, in the opinion of management, there is a question as to the ability of the debtor to meet the terms of the loan agreement, or interest or principal is more than 90 days contractually past due and the loan is not well-secured and in the process of collection. Loans meeting such criteria are classified as nonperforming and interest income is recorded on a cash basis. Past due status is based on how long since the contractual due date a principal or interest payment has been past due. For disclosure purposes, loans that are 29 days past due or less are reported as current. At the time a loan is determined to be nonperforming, interest accrued but not collected is reversed against interest income in the current period. Interest collected on nonperforming loans is applied to principal unless, in the opinion of management, collectability of principal is not in doubt. Management's assessment of indicators of loan and lease collectability, and its policies relative to the recognition of interest income, including the suspension and subsequent resumption of income recognition, do not meaningfully vary between loan and lease classes. Nonperforming loans are returned to performing status when factors indicating doubtful collectability no longer exist. Factors considered in returning a loan to performing status are consistent across all classes of loans and leases and, in accordance with regulatory guidance, relate primarily to expected payment performance. Loans are eligible to be returned to performing status when: (i) no principal or interest that is due is unpaid and repayment of the remaining contractual principal and interest is expected or (ii) the loan has otherwise become well-secured (possessing realizable value sufficient to discharge the debt, including accrued interest, in full) and is in the process of collection (through action reasonably expected to result in debt repayment or restoration to a current status in the near future). A loan that has not been brought fully current may be restored to performing status provided there has been a sustained period of repayment performance (generally a minimum of six payment periods) by the borrower in accordance with the contractual terms, and Northern Trust is reasonably assured of repayment within a reasonable period of time. Additionally, a loan that has been formally restructured so as to be reasonably assured of repayment and performance according to its modified terms may be returned to accrual status, provided there was a well-documented credit evaluation of the borrower's financial condition and prospects of repayment under the revised terms, and there has been a sustained period of repayment performance (generally a minimum of six payment periods) under the revised terms.

Impaired Loans. A loan is considered to be impaired when, based on current information and events, management determines that it is probable that Northern Trust will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are identified through ongoing credit management and risk rating processes, including the formal review of past due and watch list credits. Payment performance and delinquency status are critical factors in identifying impairment for all loans and leases, particularly those within the residential real estate, private client and personal-other classes. Other key factors considered in identifying impairment of loans and leases within the commercial and institutional, non-U.S., lease financing, and commercial-other classes relate to the borrower's ability to perform under the terms of the obligation as measured through the assessment of future cash flows, including consideration of collateral value, market value, and other factors. A loan is also considered to be impaired if its terms have been modified as a concession by Northern Trust or a bankruptcy court resulting from the debtor's financial difficulties, referred to as a troubled debt restructuring (TDR). All TDRs are reported as impaired loans in the calendar year of their restructuring. In subsequent years, a TDR may cease being reported as impaired if the loan was modified at a market rate and has performed according to the modified terms for at least six payment periods. A loan that has been modified at a below market rate will return to performing status if it satisfies the six payment periods performance requirement; however, it will remain reported as impaired. Impairment is measured based upon the present value of expected future cash flows, discounted at the loan's original effective interest rate, the fair value of the collateral if the loan is collateral dependent, or the loan's observable market value. If the loan valuation is less than the recorded value of the loan, based on the certainty of loss, either a specific allowance is established, or a charge-off is recorded, for the difference. Smaller balance (individually less than \$1,000,000) homogeneous loans are collectively evaluated for impairment and excluded from impaired loan disclosures as allowed under applicable accounting standards. Northern Trust's accounting policies for material impaired loans is consistent across all classes of loans and leases.

Premiums and Discounts. Premiums and discounts on loans are recognized as an adjustment of yield using the interest method based on the contractual terms of the loan. Certain direct origination costs and fees are netted, deferred and amortized over the life of the related loan as an adjustment to the loan's yield.

Direct Financing and Leverage Leases. Unearned lease income from direct financing and leveraged leases is recognized using the interest method. This method provides a constant rate of return on the unrecovered investment over the life of the lease. The rate of return and the allocation of income over the lease term are recalculated from the inception of the lease if during the lease term assumptions regarding the amount or timing of estimated cash flows change. Lease residual values are established at the inception of the lease based on in-house valuations and market analyses provided by outside parties. Lease residual values are reviewed at least annually for OTTI. A decline in the estimated residual value of a leased asset determined to be other-than-temporary would be recorded in the period in which the decline is identified as a reduction of interest income.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. Allowance for Credit Losses. The allowance for credit losses represents management's estimate of probable losses which have occurred as of the date of the consolidated financial statements. The loan and lease portfolio and other lending-related credit exposures are regularly reviewed to evaluate the level of the allowance for credit losses. In determining an appropriate allowance level, Northern Trust evaluates the allowance necessary for impaired loans and lending-related commitments and also estimates losses inherent in other lending-related credit exposures. The allowance for credit losses consists of the following components:

**Specific Allowance.** The 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. For impaired loans where the amount of specific allowance, if any, is determined based on the value of the underlying real estate collateral, third-party appraisals are typically obtained and utilized by management. These appraisals are generally less than twelve months old and are subject to adjustments to reflect management's judgment as to the realizable value of the collateral.

**Inherent Allowance.** As of December 31, 2015, Northern Trust changed the estimation methodology for inherent losses that have been incurred in the loan and lease portfolio. The new estimation methodology is more quantitatively focused than the previous methodology as it is based on internally developed loss data specific to the Northern Trust loan and lease portfolio. The change in methodology is accounted for as a change in estimate applicable to current period and future periods. The new estimation methodology and the related qualitative adjustment framework segregate the loan and lease portfolio into homogeneous segments. For each segment, the probability of default and the loss given default are applied to the total exposure at default to determine a quantitative inherent allowance. The quantitative inherent allowance is then reviewed within the qualitative adjustment framework, where management applies judgment by assessing internal risk factors, potential limitations in the quantitative methodology and environmental factors that are not contemplated in the quantitative methodology to compute an adjustment to the quantitative inherent allowance for each segment of the loan portfolio.

As of December 31, 2014, the amount of inherent allowance was based on factors which incorporated management's evaluation of historical charge-off experience and various qualitative factors such as management's evaluation of economic and business conditions and changes in the character and size of the loan portfolio. Factors were applied to loan and lease credit exposures aggregated by shared risk characteristics.

Results under both methods were reviewed quarterly by Northern Trust's Loan Loss Reserve Committee which includes representatives from Credit Risk Management, reporting segment management and Corporate Finance.

Loans, leases and other extensions of credit deemed uncollectible are charged to the allowance for credit losses. Subsequent recoveries, if any, are credited to the allowance. Northern Trust's policies relative to the charging-off of uncollectible loans and leases are consistent across both loan and lease segments. Determinations as to whether loan balances for which the collectability is in question are charged-off or a specific reserve is established are based on management's assessment as to the level of certainty regarding the amount of loss. The provision for credit losses, which is charged to income, is the amount necessary to adjust the allowance for credit losses to the level determined to be appropriate through the above processes. Actual losses may vary from current estimates and the amount of the provision for credit losses may be either greater or less than actual net charge-offs.

Northern Trust analyzes its exposure to credit losses from both on-balance-sheet and off-balance-sheet activity using a consistent methodology.

As of December 31, 2015, for purposes of estimating the allowance for credit losses for undrawn loan commitments and standby letters, the exposure at default includes an estimated drawdown of unused credit based on a credit conversion factor. The proportionate amount of the quantitative methodology calculation after any required adjustment in the qualitative framework results in the required allowance for undrawn commitments and standby letters of credit as of the reporting date.

As of December 31, 2014, for purposes of estimating the allowance for credit losses for undrawn loan commitments and standby letters of credit, management used conversion rates to determine the estimated amount that would be funded. Factors based on historical loss experience and specific risk characteristics of the loan product were utilized to

calculate inherent losses related to undrawn commitments and standby letters of credit as of the reporting date.

The portion of the allowance assigned to loans and leases is reported as a contra asset, directly following loans and leases in the consolidated balance sheets. The portion of the allowance assigned to undrawn loan commitments and standby letters of credit is reported in other liabilities in the consolidated balance sheets.

J. Standby Letters of Credit. Fees on standby letters of credit are recognized in other operating income using the straight-line method over the lives of the underlying agreements. Northern Trust's recorded other liability for standby

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letters of credit, reflecting the obligation it has undertaken, is measured as the amount of unamortized fees on these instruments.

**K. Buildings and Equipment.** Buildings and equipment owned are carried at original cost less accumulated depreciation. The charge for depreciation is computed using the straight-line method based on the following range of lives: buildings – up to 30 years; equipment – 3 to 10 years; and leasehold improvements—the shorter of the lease term or 15 years. Leased properties meeting certain criteria are capitalized and amortized using the straight-line method over the lease period.

**L. Other Real Estate Owned (OREO).** OREO is comprised of commercial and residential real estate properties acquired in partial or total satisfaction of loans. OREO assets are carried at the lower of cost or fair value less estimated costs to sell and are recorded in other assets on the consolidated balance sheets. Fair value is typically based on third-party appraisals. Appraisals of OREO properties are updated on an annual basis and are subject to adjustments to reflect management’s judgment as to the realizable value of the properties. Losses identified during the 90-day period after the acquisition of such properties are charged against the allowance for credit losses assigned to loans and leases. Subsequent write-downs that may be required to the carrying value of these assets and gains or losses realized from asset sales are recorded within other operating expense.

**M. Goodwill and Other Intangible Assets.** Goodwill is not subject to amortization. Separately identifiable acquired intangible assets with finite lives are amortized over their estimated useful lives, primarily on a straight-line basis. Purchased software and allowable internal costs, including compensation relating to software developed for internal use, are capitalized. Software is amortized using the straight-line method over the estimated useful lives of the assets, generally ranging from 3 to 10 years.

Goodwill and other intangible assets are reviewed for impairment on an annual basis or more frequently if events or changes in circumstances indicate the carrying amounts may not be recoverable.

**N. Trust, Investment and Other Servicing Fees.** Trust, investment and other servicing fees are recorded on the accrual basis, over the period in which the service is provided. Fees are a function of the market value of assets custodied, managed and serviced, the volume of transactions, securities lending volume and spreads, and fees for other services rendered, as set forth in the underlying client agreement. This revenue recognition involves the use of estimates and assumptions, including components that are calculated based on estimated asset valuations and transaction volumes.

**O. Client Security Settlement Receivables.** These receivables result from custody client withdrawals from short-term investment funds that settle on the following business day as well as custody client security sales executed under contractual settlement date accounting that have not yet settled. Northern Trust advances cash to the client on the date of either client withdrawal or trade execution and awaits collection from either the short-term investment funds or via the settled trade.

**P. Income Taxes.** Northern Trust follows an asset and liability approach to account for income taxes. The objective is to recognize the amount of taxes payable or refundable for the current year, and to recognize deferred tax assets and liabilities resulting from temporary differences between the amounts reported in the financial statements and the tax bases of assets and liabilities. The measurement of tax assets and liabilities is based on enacted tax laws and applicable tax rates.

Tax positions taken or expected to be taken on a tax return are evaluated based on their likelihood of being sustained upon examination by tax authorities. Only tax positions that are considered more-likely-than-not to be sustained are recorded in the consolidated financial statements. Northern Trust recognizes any interest and penalties related to unrecognized tax benefits in the provision for income taxes.

Q. Cash Flow Statements. Cash and cash equivalents have been defined as “Cash and Due from Banks”.

R. Pension and Other Postretirement Benefits. Northern Trust records the funded status of its defined benefit pension and other postretirement plans on the consolidated balance sheets. Funded pension and postretirement benefits are reported in other assets and unfunded pension and postretirement benefits are reported in other liabilities. Plan assets and benefit obligations are measured annually at December 31. Plan assets are determined based on fair value generally representing observable market prices. The projected benefit obligations are determined based on the present value of projected benefit distributions at an assumed discount rate. Pension costs are recognized ratably over the estimated working lifetime of eligible participants.

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S. Share-Based Compensation Plans. Northern Trust recognizes as compensation expense the grant-date fair value of stock and stock unit awards and other share-based compensation granted to employees within the consolidated statements of income. The fair values of stock and stock unit awards, including performance stock unit awards and director awards, are based on the closing price of the Corporation's stock on the date of grant. The fair value of stock options is estimated on the date of grant using the Black-Scholes option pricing model. The model utilizes weighted-average assumptions regarding the period of time that options granted are expected to be outstanding (expected term) based primarily on the historical exercise behavior attributable to previous option grants, the estimated yield from dividends paid on the Corporation's stock over the expected term of the options, the historical volatility of Northern Trust's stock price and the implied volatility of traded options on Northern Trust stock, and a risk free interest rate based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted.

Compensation expense for share-based award grants with terms that provide for a graded vesting schedule, whereby portions of the award vest in increments over the requisite service period, are recognized on a straight-line basis over the requisite service period for the entire award. Northern Trust does not include an estimate of future forfeitures in its recognition of share-based compensation expense as historical forfeitures have not been significant. Share-based compensation expense is adjusted based on forfeitures as they occur. Dividend equivalents are paid on stock units that have been granted but not yet vested. Cash flows resulting from the realization of tax deductions from the exercise of stock options in excess of the compensation cost recognized (excess tax benefits) are classified as financing cash flows.

T. Net Income Per Common Share. Basic net income per common share is computed by dividing net income/loss applicable to common stock by the weighted average number of common shares outstanding during each period. Diluted net income per common share is computed by dividing net income applicable to common stock and potential common shares by the aggregate of the weighted average number of common shares outstanding during the period and common share equivalents calculated for stock options and restricted stock outstanding using the treasury stock method. In a period of a net loss, diluted net income per common share is calculated in the same manner as basic net income per common share.

Northern Trust has issued certain restricted stock awards, which are unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents. These restricted shares are considered participating securities. Accordingly, Northern Trust calculates net income applicable to common stock using the two-class method, whereby net income is allocated between common stock and participating securities.

## Note 2 – Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASU 2014-09). ASU 2014-09 is a converged standard between the FASB and the International Accounting Standards Board (IASB) that provides a single comprehensive revenue recognition model for all contracts with customers across transactions and industries. The primary objective of ASU 2014-09 is revenue recognition that represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Northern Trust is currently assessing the impact of adoption of ASU 2014-09.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis" (ASU 2015-02) which changes the guidance with respect to the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments include: (1) modifying the evaluation of limited partnerships and similar legal entities, (2) amending when fees paid to a decision maker should be included in the variable interest entity analysis, (3) amending the related party relationship guidance, and (4) providing a scope exception from the consolidation guidance for reporting entities with interests in certain investment funds. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015,

although early adoption is permitted. The adoption of ASU 2015-02 by Northern Trust, effective January 1, 2016, will result in additional disclosures, but will not significantly impact Northern Trust's consolidated financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03) which requires that debt issuance costs be presented in the balance sheet as a direct deduction to the carrying amount of the associated debt liability. ASU 2015-03 is effective for interim and annual periods beginning after December 15, 2015, although early adoption is permitted. The adoption of ASU 2015-03 by Northern Trust, effective January 1, 2016, will not significantly impact Northern Trust's consolidated financial position or results of operations.



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In April 2015, the FASB issued ASU No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement” (ASU 2015-05) which clarifies whether fees paid by a customer in a cloud computing arrangement pertain to the acquisition of a software license, services, or both. ASU 2015-05 is effective for interim and annual periods beginning after December 15, 2015, although early adoption is permitted. The adoption of ASU 2015-05 by Northern Trust, effective January 1, 2016, will not significantly impact Northern Trust’s consolidated financial position or results of operations.

In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (ASU 2015-16) which requires that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. Further, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, are to be recorded in the same period’s financial statements. ASU 2015-16 is effective for interim and annual periods beginning after December 15, 2015, although earlier application is permitted for financial statements that have not been issued. The adoption of ASU 2015-16 by Northern Trust, effective January 1, 2016, will not significantly impact Northern Trust’s consolidated financial position or results of operations.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (ASU 2016-01). ASU 2016-01 requires equity investments (except those accounted for under the equity method or those that result in consolidation) to be measured at fair value with changes in fair value recognized in net income unless a policy election is made for investments without readily determinable fair values. Additionally, ASU 2016-01 requires public entities to use the exit price notion when measuring the fair value of financial instruments for measurement purposes, and eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost on the balance sheet. Furthermore, it requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017. Northern Trust is currently assessing the impact of adoption of ASU 2016-01.

## Note 3 – Fair Value Measurements

Fair value under GAAP is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date.

**Fair Value Hierarchy.** The following describes the hierarchy of valuation inputs (Levels 1, 2, and 3) used to measure fair value and the primary valuation methodologies used by Northern Trust for financial instruments measured at fair value on a recurring basis. Observable inputs reflect market data obtained from sources independent of the reporting entity; unobservable inputs reflect the entity’s own assumptions about how market participants would value an asset or liability based on the best information available. GAAP requires an entity measuring fair value to maximize the use of observable inputs and minimize the use of unobservable inputs and establishes a fair value hierarchy of inputs.

Financial instruments are categorized within the hierarchy based on the lowest level input that is significant to their valuation. Northern Trust’s policy is to recognize transfers into and transfers out of fair value levels as of the end of the reporting period in which the transfer occurred. No transfers between fair value levels occurred during the years ended December 31, 2015, or 2014.

**Level 1 –** Quoted, active market prices for identical assets or liabilities. Northern Trust’s Level 1 assets are comprised of available for sale investments in U.S. treasury securities.

**Level 2 –** Observable inputs other than Level 1 prices, such as quoted active market prices for similar assets or liabilities, quoted prices for identical or similar assets in inactive markets, and model-derived valuations in which all significant inputs are observable in active markets. Northern Trust’s Level 2 assets include available for sale and trading account securities, the fair values of which are determined predominantly by external pricing vendors. Prices received from vendors are compared to other vendor and third-party prices. If a security price obtained from a pricing

vendor is determined to exceed pre-determined tolerance levels that are assigned based on an asset type's characteristics, the exception is researched and, if the price is not able to be validated, an alternate pricing vendor is utilized, consistent with Northern Trust's pricing source hierarchy. As of December 31, 2015, Northern Trust's available for sale securities portfolio included 1,044 Level 2 securities with an aggregate market value of \$26.1 billion. All 1,044 securities were valued by external pricing vendors. As of December 31, 2014, Northern Trust's available for sale securities portfolio included 881 Level 2 securities with an aggregate market value of \$25.0 billion. All 881 securities were valued by external pricing vendors. Trading account securities, which totaled \$1.2 million and \$4.7 million as of December 31, 2015, and December 31, 2014, respectively, were all valued using external pricing vendors.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Northern Trust has established processes and procedures to assess the suitability of valuation methodologies used by external pricing vendors, including reviews of valuation techniques and assumptions used for selected securities. On a daily basis, periodic quality control reviews of prices received from vendors are conducted which include comparisons to prices on similar security types received from multiple pricing vendors and to the previous day's reported prices for each security. Predetermined tolerance level exceptions are researched and may result in additional validation through available market information or the use of an alternate pricing vendor. Quarterly, Northern Trust reviews documentation from third-party pricing vendors regarding the valuation processes and assumptions used in their valuations and assesses whether the fair value levels assigned by Northern Trust to each security classification are appropriate. Annually, valuation inputs used within third-party pricing vendor valuations are reviewed for propriety on a sample basis through a comparison of inputs used to comparable market data, including security classifications that are less actively traded and security classifications comprising significant portions of the portfolio.

Level 2 assets and liabilities also include derivative contracts which are valued internally using widely accepted income-based models that incorporate inputs readily observable in actively quoted markets and reflect the contractual terms of the contracts. Observable inputs include foreign exchange rates and interest rates for foreign exchange contracts; credit spreads, default probabilities, and recovery rates for credit default swap contracts; interest rates for interest rate swap contracts and forward contracts; and interest rates and volatility inputs for interest rate option contracts. Northern Trust evaluates the impact of counterparty credit risk and its own credit risk on the valuation of its derivative instruments. Factors considered include the likelihood of default by Northern Trust and its counterparties, the remaining maturities of the instruments, net exposures after giving effect to master netting arrangements or similar agreements, available collateral, and other credit enhancements in determining the appropriate fair value of derivative instruments. The resulting valuation adjustments have not been considered material.

Level 3 – Valuation techniques in which one or more significant inputs are unobservable in the marketplace. Northern Trust's Level 3 assets consist of auction rate securities purchased in 2008 from Northern Trust clients. To estimate the fair value of auction rate securities, for which trading is limited and market prices are generally unavailable, Northern Trust developed and maintains a pricing model that discounts estimated cash flows over their estimated remaining lives. Significant inputs to the model include the contractual terms of the securities, credit risk ratings, discount rates, forward interest rates, credit/liquidity spreads, and Northern Trust's own assumptions about the estimated remaining lives of the securities. The significant unobservable inputs used in the fair value measurement are Northern Trust's own assumptions about the estimated remaining lives of the securities and the applicable discount rates. Significant increases (decreases) in the estimated remaining lives or the discount rates in isolation would result in a slightly lower (higher) fair value measurement.

Northern Trust's Level 3 liabilities consisted of a swap that Northern Trust entered into with the purchaser of 1.0 million shares of Visa Inc. Class B common stock (Visa Class B common shares) previously held by Northern Trust. Pursuant to the swap, Northern Trust retains the risks associated with the ultimate conversion of the Visa Class B common shares into shares of Visa Inc. Class A common stock (Visa Class A common shares), such that the counterparty will be compensated for any dilutive adjustments to the conversion ratio and Northern Trust will be compensated for any anti-dilutive adjustments to the ratio. The swap also requires periodic payments from Northern Trust to the counterparty calculated by reference to the market price of Visa Class A common shares and a fixed rate of interest. The fair value of the swap is determined using a discounted cash flow methodology. The significant unobservable inputs used in the fair value measurement are Northern Trust's own assumptions about estimated changes in the conversion rate of the Visa Class B common shares into Visa Class A common shares, the date on which such conversion is expected to occur and the estimated growth rate of the Visa Class A common share price. See "Visa Class B Common Shares" under Note 24, "Contingent Liabilities," for further information.

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

Management of various businesses and departments of Northern Trust (including Corporate Market Risk, Credit Risk Management, Corporate Finance, C&IS and Wealth Management) reviews valuation methods and models for Level 3

assets and liabilities. Fair value measurements are performed upon acquisitions of an asset or liability. Management of the appropriate business or department reviews assumed inputs, especially when unobservable in the marketplace, in order to substantiate their use in each fair value measurement. When appropriate, management reviews forecasts used in the valuation process in light of other relevant financial projections to understand any variances between current and previous fair value measurements. In certain circumstances, third party information is used to support the fair value measurements. If certain third party information seems inconsistent with consensus views, a review of the information is performed by management of the respective business or department to conclude as to the appropriate fair value of the asset or liability.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following presents the fair values of, and the valuation techniques, significant unobservable inputs, and quantitative information used to develop significant unobservable inputs for, Northern Trust's Level 3 assets and liabilities as of December 31, 2015.

TABLE 43: LEVEL 3 SIGNIFICANT UNOBSERVABLE INPUTS

FINANCIAL INSTRUMENT	FAIR VALUE	VALUATION TECHNIQUE	UNOBSERVABLE INPUT	RANGE OF LIVES AND RATE
Auction Rate Securities	\$ 17.1 million	Discounted Cash Flow	Remaining lives	0.42 – 8.64 years
			Discount rates	0.3 % – 4.4%
Swap Related to Sale of Certain Visa Class B Common Shares	\$ 10.8 million	Discounted Cash Flow	Visa Class A Appreciation	9.5 % – 15.0%
			Conversion Rate	1.61 x – 1.65x
			Expected Duration	1.50 – 4.50 years

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following presents assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014, segregated by fair value hierarchy level.

TABLE 44: RECURRING BASIS HIERARCHY LEVELING

DECEMBER 31, 2015

(In Millions)	LEVEL 1	LEVEL 2	LEVEL 3	NETTING	ASSETS/ LIABILITIES AT FAIR VALUE
<b>Securities</b>					
<b>Available for Sale</b>					
U.S. Government	\$6,178.3	\$—	\$—	\$—	\$ 6,178.3
Obligations of States and Political Subdivisions	—	36.4	—	—	36.4
Government Sponsored Agency	—	16,366.8	—	—	16,366.8
Non-U.S. Government	—	309.5	—	—	309.5
Corporate Debt	—	3,712.2	—	—	3,712.2
Covered Bonds	—	1,870.2	—	—	1,870.2
Sub-Sovereign, Supranational and Non-U.S.	—	859.4	—	—	859.4
Agency Bonds	—	2,500.1	—	—	2,500.1
Other Asset-Backed	—	—	17.1	—	17.1
Auction Rate	—	374.4	—	—	374.4
Commercial Mortgage-Backed	—	93.5	—	—	93.5
Other	—	—	—	—	—
<b>Total Available for Sale</b>	<b>6,178.3</b>	<b>26,122.5</b>	<b>17.1</b>	<b>—</b>	<b>32,317.9</b>
<b>Trading Account</b>	<b>—</b>	<b>1.2</b>	<b>—</b>	<b>—</b>	<b>1.2</b>
<b>Total Available for Sale and Trading Securities</b>	<b>6,178.3</b>	<b>26,123.7</b>	<b>17.1</b>	<b>—</b>	<b>32,319.1</b>
<b>Other Assets</b>					
<b>Derivative Assets</b>					
Foreign Exchange Contracts	—	2,623.4	—	—	2,623.4
Interest Rate Contracts	—	228.5	—	—	228.5
<b>Total Derivative Assets</b>	<b>—</b>	<b>2,851.9</b>	<b>—</b>	<b>(1,600.2)</b>	<b>1,251.7</b>
<b>Other Liabilities</b>					
<b>Derivative Liabilities</b>					
Foreign Exchange Contracts	—	2,519.4	—	—	2,519.4
Interest Rate Swaps	—	131.2	—	—	131.2
Other Financial Derivatives <sup>(1)</sup>	—	0.1	10.8	—	10.9
<b>Total Derivative Liabilities</b>	<b>\$—</b>	<b>\$2,650.7</b>	<b>\$10.8</b>	<b>\$(1,717.6)</b>	<b>\$ 943.9</b>

Note: Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting arrangements or similar agreements exist between Northern Trust and the counterparty. As of December 31, 2015, derivative assets and liabilities shown above also include reductions of \$322.8 million and \$440.3 million,

respectively, as a result of cash collateral received from and deposited with derivative counterparties.

(1) This line consists of a swap related to the sale of certain Visa Class B common shares and total return swaps.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Millions)	DECEMBER 31, 2014				ASSETS/ LIABILITIES AT FAIR VALUE
	LEVEL 1	LEVEL 2	LEVEL 3	NETTING	
<b>Securities</b>					
<b>Available for Sale</b>					
U.S. Government	\$4,506.9	\$—	\$—	\$—	\$ 4,506.9
Obligations of States and Political Subdivisions	—	4.6	—	—	4.6
Government Sponsored Agency	—	16,389.2	—	—	16,389.2
Non-U.S. Government	—	310.4	—	—	310.4
Corporate Debt	—	3,577.7	—	—	3,577.7
Covered Bonds	—	1,907.5	—	—	1,907.5
Supranational and Non-U.S. Agency Bonds	—	360.6	—	—	360.6
Residential Mortgage-Backed	—	6.4	—	—	6.4
Other Asset-Backed	—	2,321.3	—	—	2,321.3
Auction Rate	—	—	18.1	—	18.1
Other	—	155.8	—	—	155.8
<b>Total Available for Sale</b>	<b>4,506.9</b>	<b>25,033.5</b>	<b>18.1</b>	<b>—</b>	<b>29,558.5</b>
Trading Account	—	4.7	—	—	4.7
<b>Total Available for Sale and Trading Securities</b>	<b>4,506.9</b>	<b>25,038.2</b>	<b>18.1</b>	<b>—</b>	<b>29,563.2</b>
<b>Other Assets</b>					
<b>Derivative Assets</b>					
Foreign Exchange Contracts	—	4,275.2	—	—	4,275.2
Interest Rate Swaps	—	232.3	—	—	232.3
<b>Total Derivatives Assets</b>	<b>—</b>	<b>4,507.5</b>	<b>—</b>	<b>(2,257.1)</b>	<b>2,250.4</b>
<b>Other Liabilities</b>					
<b>Derivative Liabilities</b>					
Foreign Exchange Contracts	—	4,095.5	—	—	4,095.5
Interest Rate Swaps	—	131.8	—	—	131.8
<b>Total Derivative Liabilities</b>	<b>—</b>	<b>4,227.3</b>	<b>—</b>	<b>(3,173.3)</b>	<b>1,054.0</b>

Note: Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting arrangements or similar agreements exist between Northern Trust and the counterparty. As of December 31, 2014, derivative assets and liabilities shown above also include reductions of \$315.8 million and \$1.2 billion, respectively, as a result of cash collateral received from and deposited with derivative counterparties.





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the changes in Level 3 assets and liabilities for the years ended December 31, 2015 and 2014.

TABLE 45: CHANGES IN LEVEL 3 ASSETS AND LIABILITIES

LEVEL 3 ASSETS (In Millions)	AUCTION RATE SECURITIES	
	2015	2014
Fair Value at January 1	\$ 18.1	\$ 98.9
Total Gains (Losses):		
Included in Earnings <sup>(1)</sup>	—	4.4
Included in Other Comprehensive Income <sup>(2)</sup>	0.7	(1.7)
Purchases, Issuances, Sales, and Settlements:		
Sales	(1.2)	(55.7)
Settlements	(0.5)	(27.8)
Fair Value at December 31	\$ 17.1	\$ 18.1

(1) Realized gains for the year ended December 31, 2014, of \$4.4 million represents gains from the sale of securities of \$1.7 million and redemptions by issuers of \$2.7 million. Gains on sales are recorded in investment security gains (losses) and gains on redemptions are recorded in interest income within the consolidated statements of income.

(2) Unrealized gains (losses) are included in net unrealized gains (losses) on securities available for sale, within the consolidated statements of comprehensive income.

LEVEL 3 LIABILITIES (In Millions)	CONTINGENT CONSIDERATION		SWAP RELATED TO SALE OF CERTAIN VISA CLASS B COMMON SHARES	
	2015	2014	2015	2014
Fair Value at January 1	\$—	\$55.4	\$—	\$—
Total (Gains) and Losses:				
Included in Earnings <sup>(1)</sup>	—	(0.1)	) 12.1	—
Purchases, Issuances, Sales, and Settlements:				
Settlements	—	(55.3)	) (1.3)	) —
Fair Value at December 31	\$—	\$—	\$10.8	\$—
Unrealized (Gains) Losses Included in Earnings Related to Financial Instruments Held at December 31(1)	\$—	\$—	\$12.0	\$—

(1) Gains (losses) are recorded in other operating income (expense) within the consolidated statements of income.

For the years ended December 31, 2015 and 2014 there were no assets or liabilities transferred into or out of Level 3. Carrying values of assets and liabilities that are not measured at fair value on a recurring basis may be adjusted to fair value in periods subsequent to their initial recognition, for example, to record an impairment of an asset. GAAP requires entities to separately disclose these subsequent fair value measurements and to classify them under the fair value hierarchy.

Assets measured at fair value on a nonrecurring basis at December 31, 2015 and 2014, all of which were categorized as Level 3 under the fair value hierarchy, were comprised of impaired loans whose values were based on real-estate and other available collateral, and of OREO properties. Fair values of real-estate loan collateral were estimated using a market approach typically supported by third-party valuations and property-specific fees and taxes, and were subject to adjustments to reflect management's judgment as to realizable value. Other loan collateral, which typically consists

of accounts receivable, inventory and equipment, is valued using a market approach adjusted for asset specific characteristics and in limited instances third-party valuations are used.

Collateral-based impaired loans and OREO assets that have been adjusted to fair value totaled \$10.4 million and \$3.6 million, respectively, at December 31, 2015, and \$14.2 million and \$4.1 million, respectively, at December 31, 2014. Assets measured at fair value on a nonrecurring basis reflect management's judgment as to realizable value.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the fair value of, and the valuation technique, significant unobservable inputs, and quantitative information used to develop the significant unobservable inputs for, Northern Trust's Level 3 assets that were measured at fair value on a nonrecurring basis as of December 31, 2015.

TABLE 46: LEVEL 3 NONRECURRING BASIS SIGNIFICANT UNOBSERVABLE INPUTS

FINANCIAL INSTRUMENT	FAIR VALUE	VALUATION TECHNIQUE	UNOBSERVABLE INPUT	RANGE OF DISCOUNTS APPLIED
Loans	\$10.4 million	Market Approach	Discount to reflect realizable value	15.0% – 25.0%
OREO	\$3.6 million	Market Approach	Discount to reflect realizable value	15.0% – 20.0%

**Fair Value of Financial Instruments.** GAAP requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate fair value. It excludes from this requirement nonfinancial assets and liabilities, as well as a wide range of franchise, relationship, and intangible values that add value to Northern Trust. Accordingly, the required fair value disclosures provide only a partial estimate of the fair value of Northern Trust. Financial instruments recorded at fair value on Northern Trust's consolidated balance sheets are discussed above. The following methods and assumptions were used in estimating the fair values of financial instruments that are not carried at fair value.

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

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

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

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

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

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

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

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

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

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

to the principal amounts of the letters of credit.

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

TABLE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS

(In Millions)	DECEMBER 31, 2015				
	BOOK VALUE	TOTAL FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
<b>ASSETS</b>					
Cash and Due from Banks	\$6,444.6	\$ 6,444.6	\$6,444.6	\$—	\$—
Federal Funds Sold and Resell Agreements	1,614.2	1,614.2	—	1,614.2	—
Interest-Bearing Deposits with Banks	14,143.1	14,143.1	—	14,143.1	—
Federal Reserve Deposits	16,398.5	16,398.5	—	16,398.5	—
Securities					
Available for Sale (Note)	32,317.9	32,317.9	6,178.3	26,122.5	17.1
Held to Maturity	5,248.3	5,227.5	26.0	5,201.5	—
Trading Account	1.2	1.2	—	1.2	—
Loans (excluding Leases)					
Held for Investment	32,432.7	32,596.5	—	—	32,596.5
Held for Sale	12.0	12.0	—	—	12.0
Client Security Settlement Receivables	2,157.0	2,157.0	—	2,157.0	—
Other Assets					
Federal Reserve and Federal Home Loan Bank Stock	253.1	253.1	—	253.1	—
Community Development Investments	173.5	177.1	—	177.1	—
Employee Benefit and Deferred Compensation	155.3	153.4	104.2	49.2	—
<b>LIABILITIES</b>					
<b>Deposits</b>					
Demand, Noninterest-Bearing, Savings and Money Market	\$45,191.3	\$ 45,191.3	\$45,191.3	\$—	\$—
Savings Certificates and Other Time	1,455.8	1,463.5	—	1,463.5	—
Non-U.S. Offices Interest-Bearing	50,221.8	50,221.8	—	50,221.8	—
Federal Funds Purchased	351.5	351.5	—	351.5	—
Securities Sold under Agreements to Repurchase	546.6	546.6	—	546.6	—
Other Borrowings	4,055.1	4,055.7	—	4,055.7	—
Senior Notes	1,497.4	1,531.8	—	1,531.8	—
Long Term Debt (excluding Leases)					
Subordinated Debt	1,341.6	1,332.2	—	1,332.2	—
Floating Rate Capital Debt	277.3	236.6	—	236.6	—
Other Liabilities					
Standby Letters of Credit	46.6	46.6	—	—	46.6
Loan Commitments	48.9	48.9	—	—	48.9
<b>DERIVATIVE INSTRUMENTS</b>					
<b>Asset/Liability Management</b>					
<b>Foreign Exchange Contracts</b>					
Assets	\$81.6	\$ 81.6	\$—	\$81.6	\$—
Liabilities	19.0	19.0	—	19.0	—
<b>Interest Rate Contracts</b>					
Assets	117.4	117.4	—	117.4	—

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Liabilities	22.7	22.7	—	22.7	—
Other Financial Derivatives					
Liabilities <sup>(1)</sup>	10.9	10.9	—	0.1	10.8
Client-Related and Trading					
Foreign Exchange Contracts					
Assets	2,541.8	2,541.8	—	2,541.8	—
Liabilities	2,500.4	2,500.4	—	2,500.4	—
Interest Rate Contracts					
Assets	111.1	111.1	—	111.1	—
Liabilities	108.5	108.5	—	108.5	—

Note: Refer to the table located on page 100 for the disaggregation of available for sale securities.

(1) This line consists of a swap related to the sale of certain Visa Class B common shares and total return swaps.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Millions)	DECEMBER 31, 2014		FAIR VALUE		
	BOOK VALUE	TOTAL FAIR VALUE	LEVEL 1	LEVEL 2	LEVEL 3
<b>ASSETS</b>					
Cash and Due from Banks	\$3,050.6	\$3,050.6	\$3,050.6	\$—	\$—
Federal Funds Sold and Resell Agreements	1,062.7	1,062.7	—	1,062.7	—
Interest-Bearing Deposits with Banks	14,928.3	14,928.3	—	14,928.3	—
Federal Reserve Deposits	17,386.3	17,386.3	—	17,386.3	—
Securities					
Available for Sale (Note)	29,558.5	29,558.5	4,506.9	25,033.5	18.1
Held to Maturity	4,170.8	4,176.1	—	4,176.1	—
Trading Account	4.7	4.7	—	4.7	—
Loans (excluding Leases)					
Held for Investment	30,458.0	30,600.4	—	—	30,600.4
Held for Sale	2.5	2.5	—	—	2.5
Client Security Settlement Receivables	1,568.8	1,568.8	—	1,568.8	—
Other Assets					
Federal Reserve and Federal Home Loan Bank Stock	207.5	207.5	—	207.5	—
Community Development Investments	209.9	210.8	—	210.8	—
Employee Benefit and Deferred Compensation	143.2	146.7	96.7	50.0	—
<b>LIABILITIES</b>					
<b>Deposits</b>					
Demand, Noninterest-Bearing, Savings and Money Market	\$41,454.6	\$41,454.6	\$41,454.6	\$—	\$—
Savings Certificates and Other Time	1,757.4	1,757.0	—	1,757.0	—
Non-U.S. Offices Interest-Bearing	47,545.0	47,545.0	—	47,545.0	—
Federal Funds Purchased	932.9	932.9	—	932.9	—
Securities Sold under Agreements to Repurchase	885.1	885.1	—	885.1	—
Other Borrowings	1,685.2	1,686.2	—	1,686.2	—
Senior Notes	1,497.0	1,541.8	—	1,541.8	—
Long Term Debt (excluding Leases)					
Subordinated Debt	1,583.3	1,583.4	—	1,583.4	—
Floating Rate Capital Debt	277.2	242.8	—	242.8	—
Other Liabilities					
Standby Letters of Credit	60.1	60.1	—	—	60.1
Loan Commitments	28.3	28.3	—	—	28.3
<b>DERIVATIVE INSTRUMENTS</b>					
<b>Asset/Liability Management</b>					
<b>Foreign Exchange Contracts</b>					
Assets	\$125.7	\$125.7	\$—	\$125.7	\$—
Liabilities	23.5	23.5	—	23.5	—
<b>Interest Rate Contracts</b>					
Assets	126.8	126.8	—	126.8	—
Liabilities	30.5	30.5	—	30.5	—
<b>Client-Related and Trading</b>					



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Foreign Exchange Contracts					
Assets	4,149.5	4,149.5	—	4,149.5	—
Liabilities	4,072.0	4,072.0	—	4,072.0	—
Interest Rate Contracts					
Assets	105.5	105.5	—	105.5	—
Liabilities	101.3	101.3	—	101.3	—

Note: Refer to the table located on page 101 for the disaggregation of available for sale securities.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 4 – Securities

Securities Available for Sale. The following tables provide the amortized cost, fair values, and remaining maturities of securities available for sale.

TABLE 48: RECONCILIATION OF AMORTIZED COST TO FAIR VALUE OF SECURITIES AVAILABLE FOR SALE

(In Millions)	DECEMBER 31, 2015			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. Government	\$6,180.4	\$ 3.4	\$ 5.5	\$6,178.3
Obligations of States and Political Subdivisions	36.4	0.1	0.1	36.4
Government Sponsored Agency	16,370.5	42.8	46.5	16,366.8
Non-U.S. Government	309.5	0.1	0.1	309.5
Corporate Debt	3,744.4	0.9	33.1	3,712.2
Covered Bonds	1,873.3	1.8	4.9	1,870.2
Sub-Sovereign, Supranational and Non-U.S. Agency Bonds	860.9	0.5	2.0	859.4
Other Asset-Backed	2,504.2	0.1	4.2	2,500.1
Auction Rate	16.7	0.5	0.1	17.1
Commercial Mortgage-Backed	378.1	—	3.7	374.4
Other	93.4	0.1	—	93.5
Total	\$32,367.8	\$ 50.3	\$ 100.2	\$32,317.9
(In Millions)	DECEMBER 31, 2014			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. Government	\$4,493.5	\$ 15.1	\$ 1.7	\$4,506.9
Obligations of States and Political Subdivisions	4.5	0.1	—	4.6
Government Sponsored Agency	16,326.4	82.3	19.5	16,389.2
Non-U.S. Government	309.5	0.9	—	310.4
Corporate Debt	3,617.5	1.8	41.6	3,577.7
Covered Bonds	1,899.9	7.9	0.3	1,907.5
Supranational and Non-U.S. Agency Bonds	360.0	1.5	0.9	360.6
Residential Mortgage-Backed	6.9	—	0.5	6.4
Other Asset-Backed	2,321.8	0.5	1.0	2,321.3
Auction Rate	18.4	0.5	0.8	18.1
Other	155.7	0.3	0.2	155.8
Total	\$29,514.1	\$ 110.9	\$ 66.5	\$29,558.5

TABLE 49: REMAINING MATURITY OF SECURITIES AVAILABLE FOR SALE

(In Millions)	DECEMBER 31, 2015		DECEMBER 31, 2014	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Due in One Year or Less	\$9,335.0	\$9,332.6	\$7,467.4	\$7,487.9
Due After One Year Through Five Years	17,808.8	17,777.0	17,132.7	17,157.6

Explanation of Responses:

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Due After Five Years Through Ten Years	4,036.5	4,023.1	3,394.2	3,418.0
Due After Ten Years	1,187.5	1,185.2	1,519.8	1,495.0
Total	\$32,367.8	\$32,317.9	\$29,514.1	\$29,558.5

Note: Mortgage-backed and asset-backed securities are included in the above table taking into account anticipated future prepayments.

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Securities Held to Maturity. The following tables provide the amortized cost, fair values and remaining maturities of securities held to maturity.

TABLE 50: RECONCILIATION OF AMORTIZED COST TO FAIR VALUES OF SECURITIES HELD TO MATURITY

(In Millions)	DECEMBER 31, 2015			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. Government	\$26.0	\$ —	\$ —	\$26.0
Obligations of States and Political Subdivisions	89.2	5.2	—	94.4
Government Sponsored Agency	9.9	0.7	—	10.6
Covered Bonds	892.4	0.4	1.9	890.9
Non-U.S. Government	1,118.0	4.8	0.5	1,122.3
Certificates of Deposit	691.6	0.1	0.1	691.6
Sub-Sovereign, Supranational and Non-U.S. Agency				
Bonds	2,326.2	8.3	0.9	2,333.6
Other	95.0	—	36.9	58.1
Total	\$5,248.3	\$ 19.5	\$ 40.3	\$5,227.5
(In Millions)	DECEMBER 31, 2014			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Obligations of States and Political Subdivisions	\$121.9	\$ 7.4	\$ —	\$129.3
Government Sponsored Agency	18.4	1.1	—	19.5
Non-U.S. Government	1,281.6	6.6	0.4	1,287.8
Certificates of Deposit	924.3	0.1	0.1	924.3
Supranational and Non-U.S. Agency Bonds	1,745.8	10.9	0.5	1,756.2
Other	78.8	0.3	20.1	59.0
Total	\$4,170.8	\$ 26.4	\$ 21.1	\$4,176.1

TABLE 51: REMAINING MATURITY OF SECURITIES HELD TO MATURITY

(In Millions)	DECEMBER 31, 2015		DECEMBER 31, 2014	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
Due in One Year or Less	\$1,908.8	\$1,913.2	\$1,503.5	\$1,504.7
Due After One Year Through Five Years	3,271.1	3,278.3	2,602.8	2,622.3
Due After Five Years Through Ten Years	14.9	11.7	23.5	21.5
Due After Ten Years	53.5	24.3	41.0	27.6
Total	\$5,248.3	\$5,227.5	\$4,170.8	\$4,176.1

Note: Mortgage-backed and asset-backed securities are included in the above table taking into account anticipated future prepayments.

Securities held to maturity consist of debt securities that management intends to, and Northern Trust has the ability to, hold until maturity.

Investment Security Gains and Losses. Net investment security losses of \$0.3 million were recognized in 2015. Net investment security losses of \$4.3 million, and \$1.5 million were recognized in 2014, and 2013, respectively. There were no OTTI losses in 2015 or 2013. Losses in 2014 include \$4.2 million of charges related to the OTTI of certain Community Reinvestment Act (CRA) eligible held to maturity securities. Proceeds of \$262.1 million from the sale of securities in 2015 resulted in gross realized gains and losses of \$0.2 million and \$0.5 million, respectively. Proceeds of \$851.8 million from the sale of securities in 2014 resulted in gross realized gains and losses of \$2.8 million and \$2.9 million, respectively. Proceeds of \$506.3 million from the sale of securities in 2013 resulted in gross realized gains and losses of \$0.8 million and \$2.3 million, respectively.

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Securities with Unrealized Losses. The following tables provide information regarding securities that had been in a continuous unrealized loss position for less than 12 months and for 12 months or longer as of December 31, 2015 and 2014.

TABLE 52: SECURITIES WITH UNREALIZED LOSSES

AS OF DECEMBER 31, 2015	LESS THAN 12		12 MONTHS OR		TOTAL	
	MONTHS		LONGER			
(In Millions)	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Government	\$3,888.0	\$ 5.5	\$—	\$ —	\$3,888.0	\$ 5.5
Obligations of States and Political Subdivisions	15.1	0.1	—	—	15.1	0.1
Government Sponsored Agency	9,208.5	38.7	1,213.6	7.8	10,422.1	46.5
Non-U.S. Government	314.3	0.6	—	—	314.3	0.6
Corporate Debt	2,067.6	10.3	1,057.1	22.8	3,124.7	33.1
Covered Bonds	1,598.4	6.7	10.0	0.1	1,608.4	6.8
Sub-Sovereign, Supranational and Non-U.S. Agency	1,132.9	2.3	109.3	0.6	1,242.2	2.9
Bonds						
Other Asset-Backed	2,122.7	4.0	170.6	0.2	2,293.3	4.2
Certificates of Deposit	180.3	0.1	—	—	180.3	0.1
Auction Rate	—	—	6.4	0.1	6.4	0.1
Commercial Mortgage-Backed	374.4	3.7	—	—	374.4	3.7
Other	28.7	13.3	50.7	23.6	79.4	36.9
Total	\$20,930.9	\$ 85.3	\$2,617.7	\$ 55.2	\$23,548.6	\$ 140.5
AS OF DECEMBER 31, 2014	LESS THAN 12		12 MONTHS OR		TOTAL	
(In Millions)	MONTHS		LONGER			
(In Millions)	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Government	\$998.2	\$ 1.7	\$—	\$ —	\$998.2	\$ 1.7
Government Sponsored Agency	2,344.9	6.6	1,730.0	12.9	4,074.9	19.5
Non-U.S. Government	292.9	0.4	—	—	292.9	0.4
Corporate Debt	1,244.5	3.9	1,338.8	37.7	2,583.3	41.6
Covered Bonds	142.3	0.2	10.0	0.1	152.3	0.3
Supranational and Non-U.S. Agency	313.2	0.3	175.5	1.1	488.7	1.4
Bonds						
Residential Mortgage-Backed	—	—	4.5	0.5	4.5	0.5
Other Asset-Backed	1,297.6	1.0	—	—	1,297.6	1.0
Certificates of Deposit	438.6	0.1	—	—	438.6	0.1
Auction Rate	2.4	0.2	4.7	0.6	7.1	0.8
Other	27.1	12.1	45.6	8.2	72.7	20.3
Total	\$7,101.7	\$ 26.5	\$3,309.1	\$ 61.1	\$10,410.8	\$ 87.6

As of December 31, 2015, 897 securities with a combined fair value of \$23.5 billion were in an unrealized loss position, with their unrealized losses totaling \$140.5 million. Unrealized losses of \$46.5 million related to government sponsored agency securities are primarily attributable to changes in market rates since their purchase. Unrealized

losses of \$33.1 million within corporate debt securities primarily reflect widened credit spreads and 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.

The majority of the \$36.9 million of unrealized losses in securities classified as “other” at December 31, 2015, relate to securities primarily purchased at a premium or par by Northern Trust for compliance with the CRA. Unrealized losses on these CRA related other securities are 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. The remaining unrealized losses on Northern Trust’s securities portfolio as of December 31, 2015, are attributable to changes in overall market interest rates, increased credit spreads, or reduced market liquidity. As of December 31, 2015, Northern Trust does not intend to sell any investment in an unrealized loss position and it is not more likely than not that Northern Trust will be required to sell any such investment before the recovery of its amortized cost basis, which may be maturity.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Security impairment reviews are conducted quarterly to identify and evaluate securities that have indications of possible OTTI. A determination as to whether a security's decline in market value is other-than-temporary takes into consideration numerous factors and the relative significance of any single factor can vary by security. Factors Northern Trust considers in determining whether impairment is other-than-temporary include, but are not limited to, the length of time the security has been impaired; the severity of the impairment; the cause of the impairment and the financial condition and near-term prospects of the issuer; activity in the market of the issuer which may indicate adverse credit conditions; Northern Trust's intent regarding the sale of the security as of the balance sheet date; and the likelihood that it will not be required to sell the security for a period of time sufficient to allow for the recovery of the security's amortized cost basis. For each security meeting the requirements of Northern Trust's internal screening process, an extensive review is conducted to determine if OTTI has occurred.

While all securities are considered, the process for identifying credit impairment within CRA eligible mortgage-backed securities, the security type for which Northern Trust has recognized all of the OTTI in 2014, incorporates an expected loss approach using discounted cash flows on the underlying collateral pools. To evaluate whether an unrealized loss on CRA mortgage-backed securities is other-than-temporary, a calculation of the security's present value is made using current pool data, the current delinquency pipeline, default rates and loan loss severities based on the historical performance of like collateral, and Northern Trust's outlook for the housing market and the overall economy. If the present value of the collateral pools was found to be less than the current amortized cost of the security, a credit-related OTTI loss would be recorded in earnings equal to the difference between the two amounts. Impairments of CRA mortgage-backed securities are influenced by a number of factors, including but not limited to, U.S. economic and housing market performance, pool credit enhancement level, year of origination, and estimated credit quality of the collateral. The factors used in estimating losses related to CRA mortgage-backed securities vary by vintage of loan origination and collateral quality.

There were no OTTI losses recognized in 2015 or 2013. There were \$4.2 million of OTTI losses recognized during the year ended December 31, 2014.

Credit Losses on Debt Securities. The table below provides information regarding total other-than-temporarily impaired securities, including noncredit-related amounts recognized in other comprehensive income and net impairment losses recognized in earnings, for the years ended December 31, 2015, 2014, and 2013.

TABLE 53: NET IMPAIRMENT LOSSES RECOGNIZED IN EARNINGS

(In Millions)	DECEMBER 31,		
	2015	2014	2013
Changes in Other-Than-Temporary Impairment Losses <sup>(1)</sup>	\$—	\$(4.9)	)\$—
Noncredit-related Losses Recorded in / (Reclassified from) OCI <sup>(2)</sup>	—	0.7	—
Net Impairment Losses Recognized in Earnings	\$—	\$(4.2)	)\$—

(1) For initial other-than-temporary impairments in the respective period, the balance includes the excess of the amortized cost over the fair value of the impaired securities. For subsequent impairments of the same security, the balance includes any additional changes in fair value of the security subsequent to its most recently recorded OTTI.

(2) For initial other-than-temporary impairments in the respective period, the balance includes the portion of the excess of amortized cost over the fair value of the impaired securities that was recorded in OCI. For subsequent impairments of the same security, the balance includes additional changes in OCI for that security subsequent to its most recently recorded OTTI.

Provided in the table below are the cumulative credit-related losses recognized in earnings on debt securities other-than-temporarily impaired.



TABLE 54: CUMULATIVE CREDIT-RELATED LOSSES ON SECURITIES HELD

(In Millions)	YEAR ENDED	
	2015	2014
Cumulative Credit-Related Losses on Securities Held – Beginning of Year	\$5.2	\$8.8
Plus: Losses on Newly Identified Impairments	—	1.8
Additional Losses on Previously Identified Impairments	—	2.4
Less: Current and Prior Period Losses on Securities Sold During the Year	—	(7.8)
Cumulative Credit-Related Losses on Securities Held – End of Year	\$5.2	\$5.2

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Note 5 – Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase  
 Securities purchased under agreements to resell and securities sold under agreements to repurchase are recorded at the amounts at which the securities were acquired or sold plus accrued interest. To minimize any 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.

The following tables summarize information related to securities purchased under agreements to resell and securities sold under agreements to repurchase.

TABLE 55: SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

(\$ In Millions)	2015	2014	
Balance at December 31	\$1,600.0	\$1,000.0	
Average Balance During the Year	1,144.7	742.1	
Average Interest Rate Earned During the Year	0.54	%0.45	%
Maximum Month-End Balance During the Year	1,600.0	1,000.0	

TABLE 56: SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

(\$ In Millions)	2015	2014	
Balance at December 31	\$546.6	\$885.1	
Average Balance During the Year	649.5	989.6	
Average Interest Rate Paid During the Year	0.05	%0.04	%
Maximum Month-End Balance During the Year	802.4	1,038.1	

## Note 6 – Loans and Leases

Amounts outstanding for loans and leases, by segment and class, are shown below.

TABLE 57: LOANS AND LEASES

	31, 2015	DECEMBER 2014
(In Millions)		
Commercial		
Commercial and Institutional	\$9,431.5	\$8,381.9
Commercial Real Estate	3,848.8	3,333.3
Lease Financing, net	544.4	916.3
Non-U.S.	1,137.7	1,530.6
Other	194.1	191.5
Total Commercial	15,156.5	14,353.6
Personal		
Residential Real Estate	8,850.7	9,782.6
Private Client	9,136.4	7,466.9
Other	37.3	37.1
Total Personal	18,024.4	17,286.6
Total Loans and Leases	\$33,180.9	\$31,640.2

Explanation of Responses:

Allowance for Credit Losses Assigned to Loans and Leases	(193.8	)(267.0	)
Net Loans and Leases	\$32,987.1	\$31,373.2	

Residential real estate loans consist of traditional first lien mortgages and equity credit lines that generally require a loan to collateral value ratio of no more than 65% to 75% at inception. Northern Trust's equity credit line products generally have draw periods of up to 10 years and a balloon payment of any outstanding balance is due at maturity. Payments are interest only with variable interest rates. Northern Trust does not offer equity credit lines that include an option to convert the outstanding balance to an amortizing payment loan. As of December 31, 2015 and 2014, equity credit lines totaled \$1.5

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billion and \$1.8 billion, respectively, and equity credit lines for which first liens were held by Northern Trust represented 89% of the total equity credit lines as of both of those dates.

Included within the non-U.S., commercial-other, and personal-other classes are short duration advances, primarily related to the processing of custodied client investments, that totaled \$719.5 million and \$1.5 billion at December 31, 2015 and 2014, respectively. Demand deposits reclassified as loan balances totaled \$75.4 million and \$92.1 million at December 31, 2015 and 2014, respectively. Loans and leases classified as held for sale totaled \$12.0 million and \$112.3 million, respectively, at December 31, 2015 related to the decision to exit a non-strategic loan and lease portfolio. Loans classified as held for sale totaled \$2.5 million at December 31, 2014.

The components of the net investment in direct finance and leveraged leases are as follows:

TABLE 58: DIRECT FINANCE AND LEVERAGED LEASES

(In Millions)	31, 2015	DECEMBER 2014
Direct Finance Leases		
Lease Receivable	\$53.8	\$195.4
Residual Value	109.3	208.8
Initial Direct Costs	1.3	3.6
Unearned Income	(9.4	)(39.1 )
Investment in Direct Finance Leases	155.0	368.7
Leveraged Leases		
Net Rental Receivable	260.2	413.6
Residual Value	215.4	285.6
Unearned Income	(86.2	)(151.6 )
Investment in Leveraged Leases	389.4	547.6
Lease Financing, net	\$544.4	\$916.3

The following schedule reflects the future minimum lease payments to be received over the next five years under direct finance leases:

TABLE 59: FUTURE MINIMUM LEASE PAYMENTS

(In Millions)	FUTURE MINIMUM LEASE PAYMENTS
2016	\$ 14.8
2017	11.5
2018	11.2
2019	9.0
2020	4.2

Credit Quality Indicators. Credit quality indicators are statistics, measurements or other metrics that provide information regarding the relative credit risk of loans and leases. Northern Trust utilizes a variety of credit quality indicators to assess the credit risk of loans and leases at the segment, class, and individual credit exposure levels.

As part of its credit process, Northern Trust utilizes an internal borrower risk rating system to support identification, approval, and monitoring of credit risk. Borrower risk ratings are used in credit underwriting, management reporting, and the calculation of credit loss allowances and economic capital.

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Risk ratings are used for ranking the credit risk of borrowers and the probability of their default. Each borrower is rated using one of a number of ratings models, which consider both quantitative and qualitative factors. The ratings models vary among classes of loans and leases in order to capture the unique risk characteristics inherent within each particular type of credit exposure. Provided below are the more significant performance indicator attributes considered within Northern Trust's borrower rating models, by loan and lease class.

- **Commercial and Institutional:** leverage, profit margin, liquidity, asset size and capital levels;
- **Commercial Real Estate:** debt service coverage, loan-to-value ratio, leasing status and guarantor support;
- **Lease Financing and Commercial-Other:** leverage, profit margin, liquidity, asset size and capital levels;
- **Non-U.S.:** leverage, profit margin, liquidity, return on assets and capital levels;
- **Residential Real Estate:** payment history, credit bureau scores and loan-to-value ratio;
- **Private Client:** cash flow-to-debt and net worth ratios, leverage and liquidity; and
- **Personal-Other:** cash flow-to-debt and net worth ratios.

While the criteria vary by model, the objective is for the borrower ratings to be consistent in both the measurement and ranking of risk. Each model is calibrated to a master rating scale to support this consistency. Ratings for borrowers not in default range from "1" for the strongest credits to "7" for the weakest non-defaulted credits. Ratings of "8" or "9" are used for defaulted borrowers. Borrower risk ratings are monitored and are revised when events or circumstances indicate a change is required. Risk ratings are generally validated at least annually. Loan and lease segment and class balances at December 31, 2015 and 2014 are provided below, segregated by borrower ratings into "1 to 3", "4 to 5", and "6 to 9" (watch list), categories.

TABLE 60: BORROWER RATINGS

(In Millions)	DECEMBER 31, 2015				DECEMBER 31, 2014			
	1 TO 3 CATEGORY	4 TO 5 CATEGORY	6 TO 9 CATEGORY (WATCH LIST)	TOTAL	1 TO 3 CATEGORY	4 TO 5 CATEGORY	6 TO 9 CATEGORY (WATCH LIST)	TOTAL
Commercial								
Commercial and Institutional	\$6,360.6	\$2,897.2	\$173.7	\$9,431.5	\$5,340.9	\$2,947.3	\$93.7	\$8,381.9
Commercial Real Estate	1,822.6	1,992.7	33.5	3,848.8	1,371.7	1,861.8	99.8	3,333.3
Lease Financing, net	377.0	133.1	34.3	544.4	552.5	360.3	3.5	916.3
Non-U.S.	313.8	823.3	0.6	1,137.7	636.8	892.9	0.9	1,530.6
Other	94.9	99.2	—	194.1	108.1	83.4	—	191.5
<b>Total Commercial</b>	<b>8,968.9</b>	<b>5,945.5</b>	<b>242.1</b>	<b>15,156.5</b>	<b>8,010.0</b>	<b>6,145.7</b>	<b>197.9</b>	<b>14,353.6</b>
Personal								
Residential Real Estate	3,014.9	5,516.7	319.1	8,850.7	3,148.0	6,207.0	427.6	9,782.6
Private Client	5,908.3	3,207.1	21.0	9,136.4	5,143.8	2,311.7	11.4	7,466.9
Other	18.3	19.0	—	37.3	21.1	16.0	—	37.1
<b>Total Personal</b>	<b>8,941.5</b>	<b>8,742.8</b>	<b>340.1</b>	<b>18,024.4</b>	<b>8,312.9</b>	<b>8,534.7</b>	<b>439.0</b>	<b>17,286.6</b>

Total Loans and Leases	\$17,910.4	\$14,688.3	\$582.2	\$33,180.9	\$16,322.9	\$14,680.4	\$636.9	\$31,640.2
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Loans and leases in the “1 to 3” category are expected to exhibit minimal to modest probabilities of default and are characterized by borrowers having the strongest financial qualities, including above average financial flexibility, cash flows and capital levels. Borrowers assigned these ratings are anticipated to experience very little to moderate financial pressure in adverse down cycle scenarios. As a result of these characteristics, borrowers within this category exhibit a minimal to modest likelihood of loss.

Loans and leases in the “4 to 5” category are expected to exhibit moderate to acceptable probabilities of default and are characterized by borrowers with less financial flexibility than those in the “1 to 3” category. Cash flows and capital levels are generally sufficient to allow for borrowers to meet current requirements, but have reduced cushion in adverse down cycle scenarios. As a result of these characteristics, borrowers within this category exhibit a moderate likelihood of loss.

Loans and leases in the watch list category have elevated credit risk profiles that are monitored through internal watch lists, and consist of credits with borrower ratings of “6 to 9”. These credits, which include all nonperforming credits, are expected to exhibit minimally acceptable probabilities of default, elevated risk of default, or are currently in default.

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Borrowers associated with these risk profiles that are not currently in default have limited financial flexibility. Cash flows and capital levels range from acceptable to potentially insufficient to meet current requirements, particularly in adverse down cycle scenarios. As a result of these characteristics, borrowers in this category exhibit an elevated to probable likelihood of loss.

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The following tables provide balances and delinquency status of performing and nonperforming loans and leases by segment and class, as well as the other real estate owned and total nonperforming asset balances, as of December 31, 2015 and 2014.

TABLE 61: DELINQUENCY STATUS

(In Millions)	CURRENT	30 – 59 DAYS PAST DUE	60 – 89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PERFORMING	NONPERFORMING	TOTAL LOANS AND LEASES
December 31, 2015							
Commercial							
Commercial and Institutional	\$9,377.6	\$7.8	\$0.9	\$2.3	\$9,388.6	\$42.9	\$9,431.5
Commercial Real Estate	3,823.3	2.4	4.9	1.5	\$3,832.1	16.7	3,848.8
Lease Financing, net	544.4	—	—	—	\$544.4	—	544.4
Non-U.S.	1,137.7	—	—	—	\$1,137.7	—	1,137.7
Other	194.1	—	—	—	\$194.1	—	194.1
Total Commercial	15,077.1	10.2	5.8	3.8	15,096.9	59.6	15,156.5
Personal							
Residential Real Estate	8,679.3	35.2	14.5	1.6	8,730.6	120.1	8,850.7
Private Client	9,104.8	17.5	12.0	1.7	9,136.0	0.4	9,136.4
Other	37.3	—	—	—	37.3	—	37.3
Total Personal	17,821.4	52.7	26.5	3.3	17,903.9	120.5	18,024.4
Total Loans and Leases	\$32,898.5	\$62.9	\$32.3	\$7.1	\$33,000.8	\$180.1	\$33,180.9
						Other Real Estate Owned	\$8.2
						Total Nonperforming Assets	\$188.3

(In Millions)	CURRENT	30 – 59 DAYS PAST DUE	60 – 89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PERFORMING	NONPERFORMING	TOTAL LOANS AND LEASES
December 31, 2014							
Commercial							
Commercial and Institutional	\$8,340.5	\$14.5	\$4.0	\$7.9	\$8,366.9	\$15.0	\$8,381.9
Commercial Real Estate	3,274.3	9.6	9.8	2.5	3,296.2	37.1	3,333.3
Lease Financing, net	916.3	—	—	—	916.3	—	916.3
Non-U.S.	1,530.6	—	—	—	1,530.6	—	1,530.6

Explanation of Responses:

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Other	191.5	—	—	—	191.5	—	191.5
Total Commercial	14,253.2	24.1	13.8	10.4	14,301.5	52.1	14,353.6
Personal							
Residential Real Estate	9,556.3	49.5	9.9	4.5	9,620.2	162.4	9,782.6
Private Client	7,396.0	56.0	5.9	7.8	7,465.7	1.2	7,466.9
Other	37.1	—	—	—	37.1	—	37.1
Total Personal	16,989.4	105.5	15.8	12.3	17,123.0	163.6	17,286.6
Total Loans and Leases	\$ 31,242.6	\$ 129.6	\$ 29.6	\$ 22.7	\$ 31,424.5	\$ 215.7	\$ 31,640.2
			Other Real Estate Owned			\$ 16.6	
			Total Nonperforming Assets			\$ 232.3	

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The following tables provide information related to impaired loans by segment and class.

TABLE 62: IMPAIRED LOANS

(In Millions)	AS OF DECEMBER 31, 2015			AS OF DECEMBER 31, 2014		
	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	SPECIFIC ALLOWANCE	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	SPECIFIC ALLOWANCE
With no related specific allowance						
Commercial and Institutional	\$27.1	\$ 30.7	\$ —	\$9.0	\$ 12.0	\$ —
Commercial Real Estate	17.2	21.2	—	47.0	52.4	—
Lease Financing, net	—	—	—	4.2	4.2	—
Residential Real Estate	99.3	140.7	—	160.9	204.8	—
Private Client	0.2	0.2	—	0.2	0.5	—
With a related specific allowance						
Commercial and Institutional	9.3	11.4	1.6	6.5	6.6	2.9
Commercial Real Estate	—	1.4	—	12.2	18.3	2.9
Lease Financing, net	2.7	2.7	1.4	—	—	—
Residential Real Estate	1.5	1.5	0.1	1.4	1.4	0.4
Private Client	—	—	—	0.8	0.8	0.4
Total						
Commercial	56.3	67.4	3.0	78.9	93.5	5.8
Personal	101.0	142.4	0.1	163.3	207.5	0.8
Total	\$157.3	\$ 209.8	\$ 3.1	\$242.2	\$ 301.0	\$ 6.6

(In Millions)	YEAR ENDED DECEMBER 31, 2015		YEAR ENDED DECEMBER 31, 2014	
	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With no related specific allowance				
Commercial and Institutional	\$14.4	\$—	\$11.3	\$0.1
Commercial Real Estate	31.9	0.5	46.1	1.0
Lease Financing, net	0.9	0.1	4.3	0.2
Residential Real Estate	142.9	1.7	176.7	2.6
Private Client	0.3	—	0.5	—
With a related specific allowance				
Commercial and Institutional	8.5	—	9.6	—
Commercial Real Estate	6.9	—	18.8	—
Lease Financing, net	2.2	—	—	—
Residential Real Estate	4.4	—	3.3	—
Private Client	0.4	—	0.6	—
Total				
Commercial	64.8	0.6	90.1	1.3
Personal	148.0	1.7	181.1	2.6
Total	\$212.8	\$2.3	\$271.2	\$3.9

Note: Average recorded investments in impaired loans are calculated as the average of the month-end impaired loan balances for the period.

Interest income that would have been recorded on nonperforming loans in accordance with their original terms totaled approximately \$8.1 million in 2015, \$9.1 million in 2014, and \$10.6 million in 2013.

There were \$3.1 million and \$2.4 million of aggregate undrawn loan commitments and standby letters of credit at December 31, 2015 and 2014, respectively, issued to borrowers whose loans were classified as nonperforming or impaired.

Troubled Debt Restructurings (TDRs). Included within impaired loans were \$79.2 million and \$82.7 million of nonperforming TDRs and \$37.9 million and \$68.6 million of performing TDRs as of December 31, 2015 and 2014, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables provide, by segment and class, the number of loans and leases modified in TDRs during the years ended December 31, 2015, and 2014, and the recorded investments and unpaid principal balances as of December 31, 2015 and 2014.

TABLE 63: TROUBLED DEBT RESTRUCTURINGS

(\$ In Millions)	NUMBER OF LOANS AND LEASES	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE
December 31, 2015			
Commercial			
Commercial and Institutional	3	\$ 24.6	\$ 26.1
Commercial Real Estate	4	1.8	2.0
Total Commercial	7	26.4	28.1
Personal			
Residential Real Estate	128	27.9	34.2
Private Client	1	0.6	0.6
Total Personal	129	28.5	34.8
Total Loans and Leases	136	\$ 54.9	\$ 62.9

Note: Period end balances reflect all paydowns and charge-offs during the year.

(\$ In Millions)	NUMBER OF LOANS AND LEASES	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE
December 31, 2014			
Commercial			
Commercial and Institutional	2	\$ 0.7	\$ 0.8
Commercial Real Estate	8	3.9	4.8
Total Commercial	10	4.6	5.6
Personal			
Residential Real Estate	124	15.0	17.9
Private Client	4	0.2	0.5
Total Personal	128	15.2	18.4
Total Loans and Leases	138	\$ 19.8	\$ 24.0

Note: Period end balances reflect all paydowns and charge-offs during the year.

TDR modifications primarily involve interest rate concessions, extensions of term, deferrals of principal, and other modifications. Other modifications typically reflect other nonstandard terms which Northern Trust would not offer in non-troubled situations. During the year ended December 31, 2015, the majority of TDR modifications of loans within commercial and institutional, commercial real estate, and private client classes were primarily interest rate concession,

deferred principal, or extensions of term. During the year ended December 31, 2015 TDR modifications of loans within residential real estate were primarily extensions of term, deferrals of principal, interest rate concessions, and other modifications. During the year ended December 31, 2014, TDR modifications of loans within commercial and institutional, commercial real estate, lease financing, and private client classes were primarily deferrals of principal, extensions of term, and other modifications; modifications of residential real estate loans were primarily deferrals of principal, extensions of term, interest rate concessions and other modifications.

There were 10 loans or leases modified in troubled debt restructurings during the previous twelve-month periods which subsequently became nonperforming during the year ended December 31, 2015. There were no loans or leases modified in troubled debt restructurings during the previous twelve-month periods which subsequently became nonperforming during the years ended December 31, 2014.

All loans and leases modified in troubled debt restructurings are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for credit losses.

Northern Trust may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. As of December 31, 2015, Northern Trust held foreclosed residential real

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estate properties with a carrying value of \$7.9 million as a result of obtaining physical possession. In addition, as of December 31, 2015, Northern Trust had consumer loans with a carrying value of \$24.5 million collateralized by residential real estate property for which formal foreclosure proceedings were in process.

## Note 7 – Allowance for Credit Losses

The allowance for credit losses, which represents management's estimate of probable losses related to specific borrower relationships and inherent in the various loan and lease portfolios, undrawn commitments, and standby letters of credit, is determined by management through a disciplined credit review process. Northern Trust's accounting policies related to the estimation of the allowance for credit losses and the charging off of loans, leases and other extensions of credit deemed uncollectible are consistent across both loan and lease segments.

Loans, leases and other extensions of credit deemed uncollectible are charged to the allowance for credit losses. Subsequent recoveries, if any, are credited to the allowance. Determinations as to whether an uncollectible loan is charged off or a specific allowance is established are based on management's assessment as to the level of certainty regarding the amount of loss.

As of December 31, 2015, Northern Trust changed the estimation methodology for inherent losses that have been incurred in the loan and lease portfolio. The adoption of the new estimation methodology resulted in a reduction in the allowance related to the commercial and institutional loan portfolio, partially offset by an increase in the allowance for undrawn loan commitments and standby letters of credit.

Changes in the allowance for credit losses by segment were as follows:

TABLE 64: CHANGES IN THE ALLOWANCE FOR CREDIT LOSSES

(In Millions)	2015			2014			2013		
	COMMERCIAL	PERSONAL	TOTAL	COMMERCIAL	PERSONAL	TOTAL	COMMERCIAL	PERSONAL	TOTAL
Balance at Beginning of Year	\$169.7	\$ 126.2	\$295.9	\$168.0	\$ 139.9	\$307.9	\$194.2	\$ 133.4	\$327.6
Charge-Offs	(13.1)	(17.6)	(30.7)	(12.9)	(23.2)	(36.1)	(16.7)	(42.6)	(59.3)
Recoveries	5.5	5.7	11.2	11.1	7.0	18.1	8.6	11.0	19.6
Net (Charge-Offs) Recoveries	(7.6)	(11.9)	(19.5)	(1.8)	(16.2)	(18.0)	(8.1)	(31.6)	(39.7)
Provision for Credit Losses	(47.2)	4.2	(43.0)	3.5	2.5	6.0	(18.1)	38.1	20.0
Effects of Foreign Exchange Rates	(0.1)	—	(0.1)	—	—	—	—	—	—
Balance at End of Year	\$114.8	\$ 118.5	\$233.3	\$169.7	\$ 126.2	\$295.9	\$168.0	\$ 139.9	\$307.9
Allowance for Credit Losses Assigned to:									
Loans and Leases	\$86.3	\$ 107.5	\$193.8	\$143.8	\$ 123.2	\$267.0	\$140.9	\$ 137.2	\$278.1
Undrawn Commitments and Standby Letters of Credit	28.5	11.0	39.5	25.9	3.0	28.9	27.1	2.7	29.8
Total Allowance for Credit Losses	\$114.8	\$ 118.5	\$233.3	\$169.7	\$ 126.2	\$295.9	\$168.0	\$ 139.9	\$307.9

Explanation of Responses:





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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables provide information regarding the recorded investments in loans and leases and the allowance for credit losses by segment as of December 31, 2015 and 2014.

TABLE 65: RECORDED INVESTMENTS IN LOANS AND LEASES

(In Millions)	COMMERCIAL	PERSONAL	TOTAL
December 31, 2015			
Loans and Leases			
Specifically Evaluated for Impairment	\$ 56.3	\$ 101.0	\$ 157.3
Evaluated for Inherent Impairment	15,100.2	17,923.4	33,023.6
Total Loans and Leases	15,156.5	18,024.4	33,180.9
Allowance for Credit Losses on Credit Exposures			
Specifically Evaluated for Impairment	3.0	0.1	3.1
Evaluated for Inherent Impairment	83.3	107.4	190.7
Allowance Assigned to Loans and Leases	86.3	107.5	193.8
Allowance for Undrawn Exposures			
Commitments and Standby Letters of Credit	28.5	11.0	39.5
Total Allowance for Credit Losses	\$ 114.8	\$ 118.5	\$ 233.3
(In Millions)	COMMERCIAL	PERSONAL	TOTAL
December 31, 2014			
Loans and Leases			
Specifically Evaluated for Impairment	\$ 78.9	\$ 163.3	\$ 242.2
Evaluated for Inherent Impairment	14,274.7	17,123.3	31,398.0
Total Loans and Leases	14,353.6	17,286.6	31,640.2
Allowance for Credit Losses on Credit Exposures			
Specifically Evaluated for Impairment	5.8	0.8	6.6
Evaluated for Inherent Impairment	138.0	122.4	260.4
Allowance Assigned to Loans and Leases	143.8	123.2	267.0
Allowance for Undrawn Exposures			
Commitments and Standby Letters of Credit	25.9	3.0	28.9
Total Allowance for Credit Losses	\$ 169.7	\$ 126.2	\$ 295.9

## Note 8 – Concentrations of Credit Risk

Concentrations of credit risk exist if a number of borrowers or other counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The fact that a credit exposure falls into one of these groups does not necessarily indicate that the credit has a higher than normal degree of credit risk. These groups are: banks and bank holding companies, residential real estate, and commercial real estate.

Banks and Bank Holding Companies. On-balance-sheet credit risk to banks and bank holding companies, both U.S. and non-U.S., consists primarily of interest bearing deposits with banks, federal funds sold and securities purchased

under agreements to resell, which totaled \$15.8 billion and \$16.0 billion at December 31, 2015 and 2014, respectively, and noninterest-bearing demand balances maintained at correspondent banks, which totaled \$2.7 billion and \$1.1 billion at December 31, 2015 and 2014, respectively. Credit risk associated with U.S. and non-U.S. banks and bank holding companies deemed to be counterparties by Credit Risk Management is managed by the Counterparty Risk Management Committee. Credit limits are established through a review process that includes an internally prepared financial analysis, use of an internal risk rating system and consideration of external ratings from rating agencies. Northern Trust places deposits with banks that have strong internal and external credit ratings and the average life to maturity of deposits with banks is maintained on a short-term basis in order to respond quickly to changing credit conditions.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Residential Real Estate. At December 31, 2015, residential real estate loans totaled \$8.9 billion, or 28% of total U.S. loans at December 31, 2015, compared with \$9.8 billion, or 32% of total U.S. loans at December 31, 2014. Residential real estate loans consist of traditional first lien mortgages and equity credit lines, which generally require a loan-to-collateral value ratio of no more than 65% to 75% at inception. Revaluations of supporting collateral are obtained upon refinancing or default or when otherwise considered warranted. Collateral revaluations for mortgages are performed by independent third parties. Of the total \$8.9 billion in residential real estate loans, \$2.3 billion were in Florida, \$2.0 billion were in the greater Chicago area, and \$1.5 billion were in California, with the remainder distributed throughout the other geographic regions within the U.S. served by Northern Trust. Legally binding undrawn commitments to extend residential real estate credit, which are primarily equity credit lines, totaled \$1.4 billion and \$1.6 billion at December 31, 2015 and 2014, respectively.

Commercial Real Estate. The commercial real estate portfolio 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. Commercial mortgage financing is provided for the acquisition or refinancing of income-producing properties. Cash flows from the properties generally are sufficient to amortize the loan. These loans are primarily located in the Illinois, Florida, California, Texas and Arizona markets. Construction, acquisition and development loans provide financing for commercial real estate prior to rental income stabilization. The intent is generally that the borrower will sell the project or refinance the loan through a commercial mortgage with Northern Trust or another financial institution upon completion.

The table below provides additional detail regarding commercial real estate loan types:

TABLE 66: COMMERCIAL REAL ESTATE LOANS

(In Millions)	31, 2015	DECEMBER 2014
Commercial Mortgages		
Apartment/ Multi-family	\$770.1	\$728.7
Office	830.4	735.5
Retail	683.3	854.1
Industrial/ Warehouse	310.5	323.7
Other	442.3	125.7
Total Commercial Mortgages	3,036.6	2,767.7
Construction, Acquisition and Development Loans	392.8	256.8
Single Family Investment	147.4	121.3
Other Commercial Real Estate Related	272.0	187.5
Total Commercial Real Estate Loans	\$3,848.8	\$3,333.3

## Note 9 – Buildings and Equipment

A summary of buildings and equipment is presented below.

TABLE 67: BUILDINGS AND EQUIPMENT

(In Millions)	DECEMBER 31, 2015		
	ORIGINAL COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Land and Improvements	\$26.5	\$ 0.7	\$25.8
Buildings	239.2	126.3	112.9

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Equipment	450.7	289.3	161.4
Leasehold Improvements	341.5	222.9	118.6
Buildings Leased under Capital Leases	80.0	51.8	28.2
Total Buildings and Equipment	\$1,137.9	\$ 691.0	\$446.9

The charge for depreciation, which includes depreciation of assets recorded under capital leases and is included within occupancy expense in the consolidated statements of income, amounted to \$90.4 million in 2015, \$90.6 million in 2014, and \$92.3 million in 2013.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 10 – Lease Commitments

At December 31, 2015, Northern Trust was obligated under a number of non-cancelable operating leases for buildings and equipment. Certain leases contain rent escalation clauses based on market indices or increases in real estate taxes and other operating expenses and renewal option clauses calling for increased rentals. There are no restrictions imposed by any lease agreement regarding the payment of dividends, debt financing or Northern Trust entering into further lease agreements. Minimum annual lease commitments as of December 31, 2015, for all non-cancelable operating leases with a term of one year or more are as follows:

TABLE 68: MINIMUM LEASE PAYMENTS

(In Millions)	FUTURE MINIMUM LEASE PAYMENTS
2016	\$ 85.1
2017	81.7
2018	75.4
2019	62.2
2020	58.8
Later Years	172.8
 Total Minimum Lease Payments	 536.0
Less: Sublease Rentals	(10.5 )
 Net Minimum Lease Payments	 \$ 525.5

Operating lease rental expense, net of rental income, is recorded in occupancy expense and amounted to \$71.6 million in 2015, \$73.2 million in 2014, and \$76.2 million in 2013.

One of the buildings and related land utilized for Chicago operations has been leased under an agreement that qualifies as a capital lease. The original long-term financing for the property was provided by Northern Trust. In the event of sale or refinancing, Northern Trust would anticipate receiving full repayment of any outstanding loans plus 42% of any proceeds in excess of the original project costs. The following table reflects the future minimum lease payments required under capital leases, net of any payments received on the long-term financing, and the present value of net capital lease obligations at December 31, 2015.

TABLE 69: PRESENT VALUE UNDER CAPITAL LEASE OBLIGATIONS

(In Millions)	FUTURE MINIMUM LEASE PAYMENTS, NET
2016	\$ 9.1
2017	9.2
2018	9.5
2019	8.7
2020	(1.7 )
Later Years	—
 Total Minimum Lease Payments, net	 34.8
Less: Amount Representing Interest	(5.1 )
 Net Present Value under Capital Lease Obligations	 \$ 29.7



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 11 – Goodwill and Other Intangibles

Goodwill. Changes by reporting segment in the carrying amount of goodwill for the years ended December 31, 2015 and 2014, including the effect of foreign exchange rates on non-U.S.-dollar-denominated balances, were as follows:

TABLE 70: GOODWILL

(In Millions)	CORPORATE & INSTITUTIONAL SERVICES	WEALTH MANAGEMENT	TOTAL
Balance at December 31, 2013	\$ 469.2	\$ 71.5	\$540.7
Foreign Exchange Rates	(7.4	) (0.1	) (7.5 )
Balance at December 31, 2014	\$ 461.8	\$ 71.4	\$533.2
Foreign Exchange Rates	(6.7	) (0.1	) (6.8 )
Balance at December 31, 2015	\$ 455.1	\$ 71.3	\$526.4

Other Intangible Assets Subject to Amortization. The gross carrying amount and accumulated amortization of other intangible assets subject to amortization as of December 31, 2015 and 2014 were as follows.

TABLE 71: OTHER INTANGIBLE ASSETS

(In Millions)	31, 2015	DECEMBER 2014
Gross Carrying Amount	\$182.3	\$189.5
Accumulated Amortization	135.8	129.5
Net Book Value	\$46.5	\$60.0

Other intangible assets consist primarily of the value of acquired client relationships and are included within other assets in the consolidated balance sheets. Amortization expense related to other intangible assets was \$10.9 million, \$19.5 million, and \$21.1 million for the years ended December 31, 2015, 2014, and 2013, respectively. Amortization for the years 2016, 2017, 2018, 2019, and 2020 is estimated to be \$8.4 million, \$8.4 million, \$7.7 million, \$7.5 million, and \$7.5 million, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 12 – Senior Notes and Long-Term Debt

Senior Notes. A summary of senior notes outstanding at December 31, 2015 and 2014 is presented below.

TABLE 72: SENIOR NOTES

(\$ In Millions)	RATE	DECEMBER 31,	
		2015	2014
Corporation-Senior Notes <sup>(1)(4)</sup>			
Fixed Rate Due Nov. 2020 <sup>(5)</sup>	3.45	\$499.7	\$499.6
Fixed Rate Due Aug. 2021 <sup>(6)</sup>	3.38	498.7	498.5
Fixed Rate Due Aug. 2022 <sup>(7)</sup>	2.38	499.0	498.9
Total Senior Notes		\$1,497.4	\$1,497.0

Long-Term Debt. A summary of long-term debt outstanding at December 31, 2015 and 2014 is presented below.

TABLE 73: LONG-TERM DEBT

(\$ In Millions)	DECEMBER	
	31, 2015	2014
Bank-Subordinated Debt <sup>(1)(4)</sup>		
5.85% Notes due Nov. 2017 <sup>(2)(11)</sup>	\$214.5	\$221.6
6.50% Notes due Aug. 2018 <sup>(2)(8)(11)</sup>	326.7	335.0
5.375% Sterling Denominated Notes due March 2015 <sup>(9)</sup>	—	233.7
Total Bank-Subordinated Debt	541.2	790.3
Corporation-Subordinated 3.95% Notes due Oct. 2025 <sup>(1)(4)(10)(11)</sup>	800.4	793.0
Capital Lease Obligations <sup>(3)</sup>	29.7	31.8
Total Long-Term Debt	\$1,371.3	\$1,615.1
Long-Term Debt Qualifying as Risk-Based Capital	\$909.2	\$1,009.1

(1) Not redeemable prior to maturity.

(2) Under the terms of its current Offering Circular dated November 6, 2013, the Bank has the ability to offer from time to time its senior bank notes in an aggregate principal amount of up to \$4.5 billion at any one time outstanding and up to an additional \$1.0 billion of subordinated notes. Each senior note will mature from 30 days to fifteen years, and each subordinated note will mature from five years to fifteen years, following its date of original issuance. Each note will mature on such date as selected by the initial purchaser and agreed to by the Bank.

(3) Refer to Note 10, “Lease Commitments.”

(4) Debt issue costs are recorded as an asset and amortized on a straight-line basis over the life of the Note.

(5) Notes issued at a discount of 0.117%.

(6) Notes issued at a discount of 0.437%

(7) Notes issued at a discount of 0.283%

(8) Notes issued at a discount of 0.02%

(9) Notes issued at a discount of 0.484%

(10) Notes issued at a discount of 0.114%



(11) Interest rate swap contracts were entered into to modify the interest expense on these subordinated notes from fixed rates to floating rates. The swaps are recorded as fair value hedges and at December 31, 2015, increases in the carrying values of subordinated notes outstanding of \$92.4 million were recorded. As of December 31, 2014, net adjustments in the carrying values of subordinated notes outstanding of \$100.6 million were recorded.

Note 13 – Floating Rate Capital Debt

In January 1997, the Corporation issued \$150 million of Floating Rate Capital Securities, Series A, through a statutory business trust wholly owned by the Corporation (NTC Capital I). In April 1997, the Corporation also issued, through a separate wholly-owned statutory business trust (NTC Capital II), \$120 million of Floating Rate Capital Securities, Series B. The sole assets of the trusts are subordinated debentures of Northern Trust Corporation that have the same interest rates and maturity dates as the corresponding distribution rates and redemption dates of the Floating Rate Capital Securities. The Series A Securities were issued at a discount to yield 60.5 basis points above the three-month London Interbank Offered Rate (LIBOR) and are due January 15, 2027. The Series B Securities were issued at a discount to yield 67.9 basis points above the three-month LIBOR and are due April 15, 2027.

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Under the provisions of The Dodd-Frank Wall Street Reform and Consumer Protection Act, the Tier 1 regulatory capital treatment of these securities is required to be phased out over a three-year period that began on January 1, 2013. In 2015, 25% of these securities were eligible for Tier 1 capital treatment. In 2016, Tier 1 capital eligibility will be fully phased out. As these securities phase out of Tier 1 capital, they are eligible for inclusion in Tier 2 capital with 75% eligibility in 2015. Beginning in 2016, 60% of these securities are eligible for Tier 2 capital treatment, declining at an incremental 10% a year until they are fully phased out in 2022. As of December 31, 2015, 25% of both Series A and B securities qualified as Tier 1 capital and 75% qualified as Tier 2 capital.

The Corporation has fully, irrevocably and unconditionally guaranteed all payments due on the Series A and B securities. The holders of the Series A and B securities are entitled to receive preferential cumulative cash distributions quarterly in arrears (based on the liquidation amount of \$1,000 per security) at an interest rate equal to the rate on the corresponding subordinated debentures. The interest rate on the Series A and Series B securities is equal to three-month LIBOR plus 0.52% and 0.59%, respectively. Subject to certain exceptions, the Corporation has the right to defer payment of interest on the subordinated debentures at any time or from time to time for a period not exceeding 20 consecutive quarterly periods provided that no extension period may extend beyond the stated maturity date. If interest is deferred on the subordinated debentures, distributions on the Series A and B securities will also be deferred and the Corporation will not be permitted, subject to certain exceptions, to pay or declare any cash distributions with respect to the Corporation's capital stock or debt securities that rank the same as or junior to the subordinated debentures, until all past due distributions are paid. The subordinated debentures are unsecured and subordinated to substantially all of the Corporation's existing indebtedness.

The Corporation has the right to redeem the Series A and Series B subordinated debentures, in whole or in part, at a price equal to the principal amount plus accrued and unpaid interest. The following table summarizes the book values of the outstanding subordinated debentures as of December 31, 2015 and 2014:

TABLE 74: SUBORDINATED DEBENTURES

	31,	DECEMBER
(In Millions)	2015	2014
NTC Capital I Subordinated Debentures due January 15, 2027	\$154.1	\$154.0
NTC Capital II Subordinated Debentures due April 15, 2027	123.2	123.2
Total Subordinated Debentures	\$277.3	\$277.2

## Note 14 – Stockholders' Equity

**Preferred Stock.** The Corporation is authorized to issue 10 million shares of preferred stock without par value. The Board of Directors is authorized to fix the particular preferences, rights, qualifications and restrictions for each series of preferred stock issued. On August 5, 2014, the Corporation issued 16 million depositary shares, each representing 1/1000 ownership interest in a share of Series C Non-Cumulative Perpetual Preferred Stock (Series C Preferred Stock), without par value, with a liquidation preference of \$25,000 (\$25 per depositary share). The aggregate proceeds from the public offering of the depositary shares, net of underwriting discounts, commissions and offering expenses, were \$388.5 million.

Dividends on the Series C Preferred Stock, which are not mandatory, accrue and are payable on the liquidation preference amount, on a non-cumulative basis, quarterly in arrears on the first day of January, April, July and October of each year, commencing on January 1, 2015, at a rate per annum equal to 5.85%.

The Series C Preferred Stock has no maturity date. Shares of the Series C Preferred Stock rank senior to the Corporation's common stock, and will rank at least equally with any other series of preferred stock it may issue (except for any senior series that may be issued with the requisite consent of the holders of the Series C Preferred Stock) and all other parity stock, with respect to the payment of dividends and distributions upon liquidation, dissolution or winding up.

The Series C Preferred Stock is redeemable at the Corporation's option, in whole or in part, on any dividend payment date on or after October 1, 2019. The Series C Preferred stock is redeemable at the Corporation's option, in whole, but not in part, prior to October 1, 2019 within 90 days of a regulatory capital treatment event, as described in the Series C Preferred Stock Certificate of Designation.

Common Stock. The Corporation's current common stock repurchase authorization was approved by the Board in April of 2015. The stock repurchase authorization remaining as of December 31, 2015, was 9.7 million shares. The repurchased shares are used for general purposes of the Corporation, including management of the Corporation's capital level and the issuance of shares under stock option and other incentive plans of the Corporation.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the Corporation's capital plan submitted in January 2015, which was reviewed without objection by the Federal Reserve in March 2015, the Corporation may repurchase up to \$285.3 million of common stock after December 31, 2015, through June 2016.

The average price paid per share for common stock repurchased in 2015, 2014, and 2013 was \$72.52, \$64.20, and \$55.90, respectively.

An analysis of changes in the number of shares of common stock outstanding follows:

TABLE 75: SHARES OF COMMON STOCK

	2015	2014	2013
Balance at January 1	233,390,705	237,322,035	238,914,988
Incentive Plan and Awards	1,033,664	1,040,015	863,958
Stock Options Exercised	1,721,282	2,515,769	3,088,490
Treasury Stock Purchased	(6,851,868)	(7,487,114)	(5,545,401)
Balance at December 31	229,293,783	233,390,705	237,322,035

## Note 15 – Accumulated Other Comprehensive Income (Loss)

The following tables summarize the components of AOCI at December 31, 2015, 2014, and 2013, and changes during the years then ended.

TABLE 76: SUMMARY OF CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(In Millions)	BALANCE		BALANCE		BALANCE		BALANCE	
	AT	NET	AT	NET	AT	NET	AT	
	DECEMBER 31,	CHANGES	DECEMBER 31,	CHANGES	DECEMBER 31,	CHANGES	DECEMBER 31,	
	2015	2014	2014	2013	2013	2012	2012	
Net Unrealized Gains (Losses) on Securities Available for Sale	\$ (31.0)	) \$ (58.6)	) \$ 27.6	\$ 21.6	\$ 6.0	\$ (95.0)	) \$ 101.0	
Net Unrealized (Losses) Gains on Cash Flow Hedges	(3.0)	) 1.7	(4.7)	) (7.6)	) 2.9	4.3	(1.4)	
Net Foreign Currency Adjustments	(17.6)	) (15.9)	) (1.7)	) (8.8)	) 7.1	(3.4)	) 10.5	
Net Pension and Other Postretirement Benefit Adjustments	(321.1)	) 19.8	(340.9)	) (80.6)	) (260.3)	) 132.8	(393.1)	
Total	\$ (372.7)	) \$ (53.0)	) \$ (319.7)	) \$ (75.4)	) \$ (244.3)	) \$ 38.7	\$ (283.0)	

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TABLE 77: DETAILS OF CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)  
FOR THE YEAR ENDED DECEMBER 31,

(In Millions)	2015		2014		2013				
	BEFORE TAX	AFTER EFFECT TAX	BEFORE TAX	AFTER EFFECT TAX	BEFORE TAX	AFTER EFFECT TAX			
Unrealized Gains (Losses) on Securities Available for Sale									
Noncredit-Related Unrealized Losses on Securities OTTI	\$—	\$—	\$—	\$4.5	\$(1.7)	\$2.8	\$3.0	\$(1.1)	\$1.9
Other Unrealized Gains (Losses) on Securities Available for Sale	(94.3)	)35.5	(58.8)	)30.1	(11.4)	)18.7	(156.8)	)59.0	(97.8)
Reclassification Adjustment for (Gains) Losses Included in Net Income	0.3	(0.1)	)0.2	0.1	—	0.1	1.6	(0.7)	)0.9
Net Change	\$ (94.0)	) \$35.4	\$ (58.6)	) \$34.7	\$ (13.1)	) \$21.6	\$ (152.2)	) \$57.2	\$ (95.0)
Unrealized (Losses) Gains on Cash Flow Hedges									
Unrealized (Losses) Gains on Cash Flow Hedges	\$(1.2)	)\$0.2	\$(1.0)	)\$(8.7)	)\$3.6	\$(5.1)	)\$2.1	\$(0.7)	)\$1.4
Reclassification Adjustment for (Gains) Losses Included in Net Income	4.7	(2.0)	)2.7	(4.0)	)1.5	(2.5)	)4.7	(1.8)	)2.9
Net Change	\$3.5	\$(1.8)	)\$1.7	\$(12.7)	)\$5.1	\$(7.6)	)\$6.8	\$(2.5)	)\$4.3
Foreign Currency Adjustments									
Foreign Currency Translation Adjustments	\$(101.5)	)\$4.9	\$(96.6)	)\$(107.8)	)\$10.8	\$(97.0)	)\$91.9	\$(29.7)	)\$62.2
Long-Term Intra-Entity Foreign Currency Transaction Losses	(18.7)	)7.1	(11.6)	) (1.0)	)0.4	(0.6)	)—	—	—
Net Investment Hedge Gains (Losses)	148.6	(56.3)	)92.3	142.6	(53.8)	)88.8	(107.3)	)41.7	(65.6)
Net Change	\$28.4	\$(44.3)	)\$(15.9)	)\$33.8	\$(42.6)	)\$(8.8)	)\$(15.4)	)\$12.0	\$(3.4)
Pension and Other Postretirement Benefit Adjustments									
Net Actuarial Gains (Losses)	\$(12.2)	)\$8.2	\$(4.0)	)\$(137.8)	)\$41.5	\$(96.3)	)\$157.7	\$(54.9)	)\$102.8
Reclassification Adjustment for Losses Included in Net Income	38.3	(14.5)	)23.8	25.2	(9.5)	)15.7	46.1	(16.1)	)30.0
Net Change	\$26.1	\$(6.3)	)\$19.8	\$(112.6)	)\$32.0	\$(80.6)	)\$203.8	\$(71.0)	)\$132.8

The following table provides the location and before-tax amounts of reclassifications out of AOCI during the years ended December 31, 2015, 2014 and 2013.

TABLE 78: RECLASSIFICATION ADJUSTMENT OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

(In Millions)	LOCATION OF RECLASSIFICATION ADJUSTMENTS RECOGNIZED IN INCOME	AMOUNT OF RECLASSIFICATION ADJUSTMENTS RECOGNIZED IN INCOME		
		YEAR ENDED DECEMBER 31,		
		2015	2014	2013
Securities Available for Sale				
Realized Losses on Securities Available for Sale	Investment Security Losses, net	\$0.3	\$0.1	\$1.6
Realized (Gains) Losses on Cash Flow Hedges				
Foreign Exchange Contracts	Other Operating Income/ Expense	4.7	(4.0)	)4.7
Pension and Other Postretirement Benefit Adjustments				
Amortization of Net Actuarial Losses	Employee Benefits	38.5	25.1	49.0
Amortization of Prior Service Cost	Employee Benefits	(0.2)	)0.1	(2.9 )
Gross Reclassification Adjustment		\$38.3	\$25.2	\$46.1

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 16 – Net Income per Common Share

The computations of net income per common share are presented below.

TABLE 79: NET INCOME PER COMMON SHARE

(\$ In Millions Except Per Common Share Information)	FOR THE YEAR ENDED		
	DECEMBER 31, 2015	2014	2013
<b>BASIC NET INCOME PER COMMON SHARE</b>			
Average Number of Common Shares Outstanding	232,279,849	235,829,790	239,265,313
Net Income	\$973.8	\$811.8	\$731.3
Less: Dividends on Preferred Stock	23.4	9.5	—
Net Income Applicable to Common Stock	\$950.4	\$802.3	\$731.3
Less: Earnings Allocated to Participating Securities	15.4	13.3	11.9
Earnings Allocated to Common Shares Outstanding	935.0	789.0	719.4
Basic Net Income Per Common Share	4.03	3.34	3.01
<b>DILUTED NET INCOME PER COMMON SHARE</b>			
Average Number of Common Shares Outstanding	232,279,849	235,829,790	239,265,313
Plus Dilutive Effect of Share-based Compensation	1,941,880	1,890,465	1,289,527
Average Common and Potential Common Shares	234,221,729	237,720,255	240,554,840
Earnings Allocated to Common and Potential Common Shares	\$935.0	\$789.0	\$719.5
Diluted Net Income Per Common Share	3.99	3.32	2.99

Note: Common stock equivalents totaling 371,059, 1,517,588, and 3,498,894 for the years ended December 31, 2015, 2014, and 2013, respectively, were not included in the computation of diluted net income per common share because their inclusion would have been antidilutive.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 17 – Net Interest Income

The components of net interest income were as follows:

TABLE 80: NET INTEREST INCOME

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
Interest Income			
Loans and Leases	\$731.9	\$735.9	\$743.1
Securities – Taxable	332.2	274.9	237.2
– Non-Taxable	4.8	7.2	11.6
Interest-Bearing Due from and Deposits with Banks <sup>(1)</sup>	108.3	127.6	142.1
Federal Reserve Deposits and Other	46.8	41.3	21.5
<b>Total Interest Income</b>	<b>\$1,224.0</b>	<b>\$1,186.9</b>	<b>\$1,155.5</b>
Interest Expense			
Deposits	\$74.3	\$81.7	\$103.3
Federal Funds Purchased	0.7	1.3	1.5
Securities Sold under Agreements to Repurchase	0.3	0.4	0.4
Other Borrowings	5.0	3.4	3.3
Senior Notes	46.8	54.7	74.4
Long-Term Debt	24.4	37.7	37.1
Floating Rate Capital Debt	2.4	2.2	2.4
<b>Total Interest Expense</b>	<b>\$153.9</b>	<b>\$181.4</b>	<b>\$222.4</b>
<b>Net Interest Income</b>	<b>\$1,070.1</b>	<b>\$1,005.5</b>	<b>\$933.1</b>

(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.

## Note 18 – Other Operating Income

The components of other operating income were as follows:

TABLE 81: Other Operating Income

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
Loan Service Fees	\$59.1	\$62.7	\$61.9
Banking Service Fees	48.2	49.6	50.9
Other Income	139.8	41.2	53.7
<b>Total Other Operating Income</b>	<b>\$247.1</b>	<b>\$153.5</b>	<b>\$166.5</b>



Other income in 2015 includes a \$99.9 million net gain on the sale of 1.0 million Visa Inc. Class B common shares. In addition, Other income in 2015 includes a \$25.9 million net gain on the sale of certain loans and leases, offset by a \$27.0 million fair value adjustment on leases classified as held for sale as of December 31, 2015, each of which is related to the decision to exit a portion of a non-strategic loan and lease portfolio.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 19 – Other Operating Expense

The components of other operating expense were as follows:

TABLE 82: OTHER OPERATING EXPENSE

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
Business Promotion	\$93.2	\$88.0	\$91.6
FDIC Insurance Premiums	25.2	22.0	23.5
Staff Related	40.5	39.1	39.1
Other Intangibles Amortization	10.9	19.5	21.1
Other Expenses	158.2	103.5	138.9
Total Other Operating Expense	\$328.0	\$272.1	\$314.2

Other expenses in 2015 includes a charge related to voluntary cash contributions to certain constant dollar NAV funds totaling \$45.8 million to bring the NAVs of these funds to \$1.00. Other expenses in 2013 include a \$19.2 million charge in connection with an agreement to resolve certain litigation.

## Note 20 – Income Taxes

The following table reconciles the total provision for income taxes recorded in the consolidated statements of income with the amounts computed at the statutory federal tax rate of 35%.

TABLE 83: INCOME TAXES

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
Tax at Statutory Rate	\$512.7	\$416.6	\$376.4
Tax Exempt Income	(4.8)	(4.9)	(6.2)
Leveraged Lease Adjustments	0.1	(3.4)	(2.3)
Foreign Tax Rate Differential	(44.2)	(44.1)	(27.6)
State Taxes, net	33.0	29.6	26.3
Other	(5.6)	(15.4)	(22.4)
Provision for Income Taxes	\$491.2	\$378.4	\$344.2

The Corporation files income tax returns in the U.S. federal, various state, and foreign jurisdictions. The Corporation is no longer subject to income tax examinations by U.S. federal tax authorities for years before 2009, or non-U.S. tax authorities for years before 2006. The Corporation is no longer subject to income tax examinations by state or local tax authorities for years before 2009.

Included in other liabilities within the consolidated balance sheets at December 31, 2015 and 2014 were \$12.3 million and \$11.9 million of unrecognized tax benefits, respectively. If recognized, 2015 and 2014 net income would have increased by \$8.7 million and \$8.8 million, respectively, resulting in a decrease of those years' effective income tax rates. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

TABLE 84: UNRECOGNIZED TAX BENEFITS

Explanation of Responses:

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(In Millions)	2015	2014
Balance at January 1	\$11.9	\$15.6
Additions for Tax Positions Taken in Prior Years	3.9	3.0
Reductions for Tax Positions Taken in Prior Years	(2.7	)(5.5
Reductions Resulting from Expiration of Statutes	(0.8	)(1.2
Balance at December 31,	\$12.3	\$11.9

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Unrecognized tax benefits had net increases of \$0.4 million, resulting in a remaining balance of \$12.3 million at December 31, 2015, compared to net decreases of \$3.7 million resulting in a remaining balance of \$11.9 million at December 31, 2014. It is possible that changes in the amount of unrecognized tax benefits could occur in the next 12 months due to changes in judgment related to recognition or measurement, settlements with taxing authorities, or expiration of statute of limitations. Management does not believe that future changes, if any, would have a material effect on the consolidated financial position or liquidity of Northern Trust, although they could have a material effect on operating results for a particular period.

A provision for interest and penalties of \$0.1 million, net of tax, was included in the provision for income taxes for the year ended December 31, 2015. This compares to a provision of interest and penalties of \$0.2 million, net of tax, for the year ended December 31, 2014. As of December 31, 2015 and 2014, the liability for the potential payment of interest and penalties totaled \$11.3 million and \$10.2 million, net of tax, respectively.

Pre-tax earnings of non-U.S. subsidiaries are subject to U.S. taxation when effectively repatriated. Northern Trust provides income taxes on the undistributed earnings of non-U.S. subsidiaries, except to the extent that those earnings are indefinitely reinvested outside the U.S. Northern Trust elected to indefinitely reinvest \$257.4 million, \$177.4 million, and \$141.0 million of 2015, 2014, and 2013 earnings, respectively, of certain non-U.S. subsidiaries and, therefore, no U.S. deferred income taxes were recorded on those earnings. As of December 31, 2015, the cumulative amount of undistributed pre-tax earnings in these subsidiaries was approximately \$1.4 billion. Based on the current U.S. federal income tax rate, an additional deferred tax liability of approximately \$298.7 million would have been required as of December 31, 2015, if Northern Trust had not elected to indefinitely reinvest those earnings.

The components of the consolidated provision for income taxes for each of the three years ended December 31 are as follows:

TABLE 85: PROVISION FOR INCOME TAXES

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
Current Tax Provision:			
Federal	\$489.8	\$291.5	\$185.6
State	64.5	47.2	24.6
Non-U.S.	83.1	76.1	67.4
Total	637.4	414.8	277.6
Deferred Tax Provision:			
Federal	(131.1)	(31.1)	)\$53.9
State	(13.6)	(1.6)	)14.1
Non-U.S.	(1.5)	(3.7)	)1.4
Total	(146.2)	(36.4)	)66.6
Provision for Income Taxes	\$491.2	\$378.4	\$344.2

In addition to the amounts shown above, tax charges and benefits have been recorded directly to stockholders' equity for the following items:

TABLE 86: TAX CHARGES AND BENEFITS RECORDED DIRECTLY TO STOCKHOLDERS' EQUITY

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013

Explanation of Responses:

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Current Tax Benefit for Employee Stock Options and Other Stock-Based Plans	\$17.7	\$8.8	\$3.0
Tax Effect of Other Comprehensive Income	17.0	18.6	4.3

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred taxes result from temporary differences between the amounts reported in the consolidated financial statements and the tax bases of assets and liabilities. Deferred tax liabilities and assets have been computed as follows:

TABLE 87: DEFERRED TAX LIABILITIES

(In Millions)	DECEMBER 31,		
	2015	2014	2013
Deferred Tax Liabilities:			
Lease Financing	\$272.6	\$388.6	\$392.0
Software Development	339.9	316.1	299.0
Accumulated Depreciation	20.6	24.1	22.0
Compensation and Benefits	70.7	63.5	112.2
State Taxes, net	48.8	62.3	63.3
Other Liabilities	169.1	157.5	104.0
Gross Deferred Tax Liabilities	921.7	1,012.1	992.5
Deferred Tax Assets:			
Allowance for Credit Losses	81.7	103.5	107.8
Other Assets	185.0	126.7	85.0
Gross Deferred Tax Assets	266.7	230.2	192.8
Valuation Reserve	(1.6	)(3.9	)(3.9
Deferred Tax Assets, net of Valuation Reserve	265.1	226.3	188.9
Net Deferred Tax Liabilities	\$656.6	\$785.8	\$803.6

Northern Trust had various state net operating loss carryforwards as of December 31, 2015, 2014, and 2013. The income tax benefits associated with these loss carryforwards were approximately \$1.6 million as of December 31, 2015, and \$3.9 million as of December 31, 2014 and 2013. A valuation allowance of \$1.6 million was recorded at December 31, 2015, and \$3.9 million as of December 31, 2014, and 2013, as management believes the net operating losses will not be fully realized. No valuation allowance related to the remaining deferred tax assets was recorded at December 31, 2015, 2014, and 2013, as management believes it is more likely than not that the deferred tax assets will be fully realized.

## Note 21 – Employee Benefits

The Corporation and certain of its subsidiaries provide various benefit programs, including defined benefit pension, postretirement health care, and defined contribution plans. A description of each major plan and related disclosures are provided below.

**Pension.** A noncontributory qualified defined benefit pension plan covers substantially all U.S. employees of Northern Trust. Employees of various European subsidiaries retain benefits in local defined benefit plans, although those plans are closed to new participants and to future benefit accruals.

Northern Trust also maintains a noncontributory supplemental pension plan for participants whose retirement benefit payments under the U.S. plan are expected to exceed the limits imposed by federal tax law. Northern Trust has a nonqualified trust, referred to as a “Rabbi” Trust, used to hold assets designated for the funding of benefits in excess of those permitted in certain of its qualified retirement plans. This arrangement offers participants a degree of assurance

for payment of benefits in excess of those permitted in the related qualified plans. As the “Rabbi” Trust assets remain subject to the claims of creditors and are not the property of the employees, they are accounted for as corporate assets and are included in other assets in the consolidated balance sheets. Total assets in the “Rabbi” Trust related to the nonqualified pension plan at December 31, 2015 and 2014 amounted to \$106.1 million and \$93.2 million, respectively. Contributions of \$16.5 million and \$13.9 million were made to the “Rabbi” Trust in 2015 and 2014, respectively.

The following tables set forth the status, amounts included in AOCI, and net periodic pension expense of the U.S. plan, non-U.S. plans, and supplemental plan for 2015, 2014, and 2013. Prior service costs are being amortized on a straight-line basis over 11 years for the U.S. plan and 9 years for the supplemental plan.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TABLE 88: EMPLOYEE BENEFIT PLAN STATUS

(\$ In Millions)	U.S. PLAN			NON-U.S. PLANS		SUPPLEMENTAL PLAN	
	2015	2014	2015	2014	2015	2014	
Accumulated Benefit Obligation	\$903.4	\$974.8	\$ 156.5	\$ 184.6	\$ 102.1	\$ 109.2	
Projected Benefit Obligation	1,006.5	1,091.5	156.5	184.6	113.9	123.0	
Plan Assets at Fair Value	1,342.0	1,440.8	144.3	157.6	—	—	
Funded Status at December 31	\$335.5	\$349.3	\$ (12.2 )	\$ (27.0 )	\$ (113.9 )	\$ (123.0 )	
Weighted-Average Assumptions:							
Discount Rates	4.71	%4.25	%3.39	% 3.20	% 4.71	% 4.25	%
Rate of Increase in Compensation Level	4.25	4.25	N/A	N/A	4.25	4.25	
Expected Long-Term Rate of Return on Assets	7.00	7.25	3.73	4.00	N/A	N/A	

TABLE 89: AMOUNTS INCLUDED IN ACCUMULATED OTHER COMPREHENSIVE INCOME

(In Millions)	U.S. PLAN			NON-U.S. PLANS		SUPPLEMENTAL PLAN	
	2015	2014	2015	2014	2015	2014	
Net Actuarial Loss	\$381.0	\$382.9	\$ 51.6	\$ 60.5	\$ 66.1	\$ 81.5	
Prior Service Cost	(2.7 )	(3.1 )	—	—	1.0	1.1	
Gross Amount in Accumulated Other Comprehensive Income	378.3	379.8	51.6	60.5	67.1	82.6	
Income Tax Effect	143.1	143.3	5.9	6.3	25.3	30.9	
Net Amount in Accumulated Other Comprehensive Income	\$235.2	\$236.5	\$ 45.7	\$ 54.2	\$ 41.8	\$ 51.7	

TABLE 90: NET PERIODIC PENSION EXPENSE

(\$ In Millions)	U.S. PLAN			NON-U.S. PLANS			SUPPLEMENTAL PLAN			
	2015	2014	2013	2015	2014	2013	2015	2014	2013	
Service Cost	\$37.8	\$32.7	\$30.3	\$—	\$—	\$—	\$3.6	\$3.1	\$1.6	
Interest Cost	44.7	44.4	42.1	5.7	6.9	6.6	5.0	4.8	4.4	
Expected Return on Plan Assets	(96.5 )	(97.7 )	(93.3 )	(5.9 )	(7.0 )	(6.2 )	N/A	N/A	N/A	
Amortization:										
Net Loss (Gain)	29.7	21.5	42.5	1.5	(1.6 )	1.0	7.3	5.8	6.7	
Prior Service Cost	(0.4 )	(0.4 )	(0.4 )	—	—	—	0.2	0.5	0.5	
Net Periodic Pension Expense (Benefit)	\$15.3	\$0.5	\$21.2	\$1.3	\$(1.7 )	\$1.4	\$16.1	\$14.2	\$13.2	
Weighted-Average Assumptions:										
Discount Rates	4.25	%5.00	%4.25	%3.20	%4.31	%4.42	%4.25	%5.00	%4.25	%
Rate of Increase in Compensation Level	4.25	4.25	4.02	N/A	N/A	N/A	4.25	4.25	4.02	
Expected Long-Term Rate of Return on Assets	7.25	7.75	7.75	4.00	4.84	4.76	N/A	N/A	N/A	

Explanation of Responses:



Pension expense for 2016 is expected to include approximately \$25.7 million and \$(0.3) million related to the amortization of net loss and prior service cost balances, respectively, from AOCI.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TABLE 91: CHANGE IN PROJECTED BENEFIT OBLIGATION

(In Millions)	U.S. PLAN			NON-U.S. PLANS		SUPPLEMENTAL PLAN
	2015	2014	2015	2014	2015	2014
Beginning Balance	\$ 1,091.5	\$ 919.7	\$ 184.6	\$ 164.7	\$ 123.0	\$ 101.5
Service Cost	37.8	32.7	—	—	3.6	3.1
Interest Cost	44.7	44.4	5.7	6.9	5.0	4.8
Actuarial (Gain) Loss	(93.7)	) 153.1	(12.0)	) 33.2	(8.1)	) 23.1
Benefits Paid	(73.8)	) (58.4)	) (9.4)	) (6.6)	) (9.6)	) (9.5)
Foreign Exchange Rate Changes	—	—	(12.4)	) (13.6)	) —	—
Ending Balance	\$ 1,006.5	\$ 1,091.5	\$ 156.5	\$ 184.6	\$ 113.9	\$ 123.0

Effective December 31, 2015, Northern Trust changed from the RP-2014 mortality table with improvement scale MP-2014 to the aggregate RP-2014 mortality table with adjustment from 2006 to 2014 to reflect improvement scale MP-2015, and with future improvement under scale MP-2015 released by the Society of Actuaries in October 2015.

TABLE 92: ESTIMATED FUTURE BENEFIT PAYMENTS

(In Millions)	U.S. PLAN	NON-U.S. PLANS	SUPPLEMENTAL PLAN
2016	\$68.0	\$2.3	\$ 9.6
2017	67.8	2.5	12.0
2018	69.2	2.9	11.7
2019	70.8	3.0	13.0
2020	69.1	3.3	11.6
2021-2025	345.6	21.4	55.6

TABLE 93: CHANGE IN PLAN ASSETS

(In Millions)	U.S. PLAN			NON-U.S. PLANS
	2015	2014	2015	2014
Fair Value of Assets at Beginning of Period	\$ 1,440.8	\$ 1,342.1	\$ 157.6	\$ 148.5
Actual Return on Assets	(25.0)	) 157.1	1.3	22.2
Employer Contributions	—	—	4.6	4.8
Benefits Paid	(73.8)	) (58.4)	) (9.4)	) (6.6)
Foreign Exchange Rate Changes	—	—	(9.8)	) (11.3)
Fair Value of Assets at End of Period	\$ 1,342.0	\$ 1,440.8	\$ 144.3	\$ 157.6

The minimum required and maximum deductible contributions for the U.S. qualified plan in 2016 are estimated to be zero and \$250.0 million, respectively.

A total return investment strategy approach is employed for Northern Trust's U.S. pension plan whereby a mix of U.S. and non-U.S. equities, fixed income and alternative asset investments are used to maximize the long-term return of plan assets for a prudent level of risk. This is accomplished by diversifying the portfolio across various asset classes, with the goal of reducing volatility of return, and among various issuers of securities to reduce principal risk. Northern Trust utilizes an asset/liability methodology to determine the investment policies that will best meet its short and long-term objectives. The process is performed by modeling current and alternative strategies for asset allocation, funding policy and actuarial methods and assumptions. The financial modeling uses projections of expected capital market returns and expected volatility of those returns to determine alternative asset mixes having the greatest

probability of meeting the plan's investment objectives. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The intent of this strategy is to minimize plan expenses by outperforming growth in plan liabilities over the long run.

The target allocation of plan assets since May 2014, by major asset category, is 20% U.S. equities, 15% non-U.S. equities, 45% long duration fixed income securities, and 20% alternative investments, split among private equity funds (5%), hedge funds (5%), real estate (5%) and global listed infrastructure (5%). Equity investments include common stocks that are listed on an exchange and investments in commingled funds that invest primarily in publicly traded equities. Equity investments are diversified across U.S. and non-U.S. stocks and divided by investment style and market

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capitalization. Fixed income securities held include U.S. treasury securities and investments in commingled funds that invest in a diversified blend of longer duration fixed income securities. Alternative investments, including private equity, hedge funds, real estate, and global infrastructure, are used judiciously to enhance long-term returns while improving portfolio diversification. Private equity assets consist primarily of investments in limited partnerships that invest in individual companies in the form of non-public equity or non-public debt positions. Direct or co-investment in non-public stock by the plan is prohibited. The plan's private equity investments are limited to 20% of the total limited partnership and the maximum allowable loss cannot exceed the commitment amount. The plan holds two investments in a hedge fund of funds, which invests, either directly or indirectly, in a diversified portfolio of funds or other pooled investment vehicles.

Investment in real estate is designed to provide stable income returns and added diversification based upon the historical low correlation between real estate and equity or fixed income investments. The plan's real estate assets consist of one collective index fund that invests in a diversified portfolio of global real estate investments, primarily equity securities.

Though not a primary strategy for meeting the plan's objectives, derivatives may be used from time to time, depending on the nature of the asset class to which they relate, to gain market exposure in an efficient and timely manner, to hedge foreign currency exposure or interest rate risk, or to alter the duration of a portfolio. There were no derivatives held by the plan at December 31, 2015 or 2014.

Investment risk is measured and monitored on an ongoing basis through quarterly liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. Standards used to evaluate the plan's investment manager performance include, but are not limited to, the achievement of objectives, operation within guidelines and policy, and comparison against a relative benchmark. In addition, each manager of the investment funds held by the plan is ranked against a universe of peers and compared to a relative benchmark. Total plan performance analysis includes an analysis of the market environment, asset allocation impact on performance, risk and return relative to other ERISA plans, and manager impacts upon plan performance.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by Northern Trust for the U.S. qualified plan assets measured at fair value.

Level 1 – Quoted, active market prices for identical assets or liabilities. The U.S. pension plan's Level 1 investments include foreign and domestic common stocks, an exchange traded fund, and mutual funds. The U.S. pension plan's Level 1 investments are exchange traded and are valued at the closing price reported by the respective exchanges on the day of valuation. Share prices of the funds, referred to as a fund's Net Asset Value (NAV), are calculated daily based on the closing market prices and accruals of securities in the fund's total portfolio (total value of the fund) divided by the number of fund shares currently issued and outstanding. Redemptions of the mutual and collective trust fund shares occur by contract at the respective fund's redemption date NAV.

Level 2 – Observable inputs other than Level 1 prices, such as quoted active market prices for similar assets or liabilities, quoted prices for identical or similar assets in inactive markets, and model-derived valuations in which all significant inputs are observable in active markets. The U.S. pension plan's Level 2 assets include U.S. government securities and collective trust funds. U.S. government securities are valued by a third party pricing source that incorporates market observable data such as reported sales of similar securities, broker quotes and reference data. The inputs used are based on observable data in active markets. The NAVs of the funds are calculated monthly based on the closing market prices and accruals of securities in the fund's total portfolio (total value of the fund) divided by the number of fund shares currently issued and outstanding. Redemptions of the mutual and collective trust fund shares occur by contract at the respective fund's redemption date NAV.

Level 3 – Valuation techniques in which one or more significant inputs are unobservable in the marketplace. The U.S. pension plan's Level 3 assets are private equity and hedge funds which invest in underlying groups of investment funds or other pooled investment vehicles that are selected by the respective funds' investment managers. The investment funds and the underlying investments held by these investment funds are valued at fair value. In determining the fair value of the underlying investments of each fund, the fund's investment manager or general partner takes into account the estimated value reported by the underlying funds as well as any other considerations that may, in their judgment,

increase or decrease such estimated value.

While Northern Trust believes its valuation methods for plan assets are appropriate and consistent with other market participants, the use of different methodologies or assumptions, particularly as applied to Level 3 assets, could have a material effect on the computation of their estimated fair values.

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The following table presents the fair values of Northern Trust's U.S. pension plan assets, by major asset category, and their level within the fair value hierarchy defined by GAAP as of December 31, 2015 and 2014.

TABLE 94: FAIR VALUE OF U.S. PENSION PLAN ASSETS

(In Millions)	December 31, 2015			TOTAL
	LEVEL 1	LEVEL 2	LEVEL 3	
Common Stock				
U.S.	\$45.4	\$—	\$—	\$45.4
Canada	0.3	—	—	0.3
Fixed Income – U.S. Government	—	135.7	—	135.7
Other Investments				
Mutual Funds:				
Global Large Cap Blend	64.3	—	—	64.3
Exchange Traded Fund:				
Domestic Large Cap Core	0.5	—	—	0.5
Collective Trust Funds:				
Foreign Large Cap Blend	—	113.0	—	113.0
Foreign Small Cap Blend	—	37.1	—	37.1
Domestic Small Cap Value	—	104.9	—	104.9
Domestic Small Cap Growth	—	15.0	—	15.0
Domestic Large Cap Growth	—	36.6	—	36.6
Domestic Large Cap Minimum Volatility	—	82.4	—	82.4
Short-Term Investment	—	5.5	—	5.5
Global Real Estate Blend	—	67.0	—	67.0
Domestic Long-Term Bond	—	464.3	—	464.3
Emerging Market Large Cap Blend	—	59.1	—	59.1
Private Equity Funds	—	—	47.5	47.5
Hedge Funds	—	—	63.4	63.4
Total Assets at Fair Value	\$110.5	\$1,120.6	\$110.9	\$1,342.0

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(In Millions)	December 31, 2014			TOTAL
	LEVEL 1	LEVEL 2	LEVEL 3	
Common Stock				
U.S.	\$14.8	\$—	\$—	\$14.8
Fixed Income – U.S. Government	—	159.5	—	159.5
Other Investments				
Mutual Funds:				
Global Large Cap Blend	69.6	—	—	69.6
Collective Trust Funds:				
Foreign Large Cap Blend	—	105.4	—	105.4
Foreign Small Cap Blend	—	37.2	—	37.2
Domestic Large Cap Blend	—	196.7	—	196.7
Domestic Small Cap Value	—	26.5	—	26.5
Domestic Mid Cap Value	—	14.4	—	14.4
Domestic Small Cap Growth	—	21.2	—	21.2
Domestic Mid Cap Growth	—	15.2	—	15.2
Short-Term Investment	—	3.4	—	3.4
Global Real Estate Blend	—	73.8	—	73.8
Domestic Long-Term Bond	—	508.0	—	508.0
Emerging Market Large Cap Blend	—	68.2	—	68.2
Private Equity Funds	—	—	49.0	49.0
Hedge Funds	—	—	68.6	68.6
Cash and Other	9.3	—	—	9.3
Total Assets at Fair Value	\$93.7	\$1,229.5	\$117.6	\$1,440.8

The following table presents the changes in Level 3 assets for the years ended December 31, 2015 and 2014.

TABLE 95: CHANGE IN LEVEL 3 ASSETS

(In Millions)	2015	PRIVATE EQUITY FUNDS		HEDGE FUNDS	
		2014	2015	2014	2015
Fair Value at January 1	\$ 49.0	\$ 47.7	\$ 68.6	\$ 55.1	
Actual Return on Plan Assets	6.6	10.3	(0.2)	) 1.8	
Realized Gain	—	—	2.6	1.7	
Purchases	2.4	3.5	10.0	15.0	
Sales	(10.5)	) (12.5	) (17.6	) (5.0	)
Fair Value at December 31	\$ 47.5	\$ 49.0	\$ 63.4	\$ 68.6	

Note: The return on plan assets represents the change in the unrealized gain (loss) on assets still held at December 31.

A building block approach is employed for Northern Trust's U.S. pension plan in determining the long-term rate of return for plan assets. Historical markets and long-term historical relationships between equities, fixed income and other asset classes are studied using the widely-accepted capital market principle that assets with higher volatility generate a greater return over the long-run. Current market factors such as inflation expectations and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio rate of return is established with consideration given to diversification and rebalancing. The rate is reviewed against peer data and

historical returns to verify the return is reasonable and appropriate. Based on this approach and the plan's target asset allocation, the expected long-term rate of return on assets as of the plan's December 31, 2015, measurement date was set at 7.00%.

Postretirement Health Care. Northern Trust maintains an unfunded postretirement health care plan under which those employees who retire at age 55 or older under the provisions of the U.S. defined benefit plan and had attained 15 years of service as of December 31, 2011 may be eligible for subsidized postretirement health care coverage. The provisions of this plan may be changed further at the discretion of Northern Trust, which also reserves the right to terminate these benefits at any time.



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The following tables set forth the postretirement health care plan status and amounts included in AOCI at December 31, the net periodic postretirement benefit cost of the plan for 2015 and 2014, and the change in the accumulated postretirement benefit obligation during 2015 and 2014.

TABLE 96: POSTRETIREMENT HEALTH CARE PLAN STATUS

(In Millions)	DECEMBER	
	31, 2015	2014
Accumulated Postretirement Benefit Obligation at Measurement Date:		
Retirees and Dependents	\$24.9	\$25.0
Actives Eligible for Benefits	7.3	8.4
Net Postretirement Benefit Obligation	\$32.2	\$33.4

TABLE 97: AMOUNTS INCLUDED IN ACCUMULATED OTHER COMPREHENSIVE INCOME

(In Millions)	DECEMBER	
	31, 2015	2014
Net Actuarial Gain	\$(2.6	)(2.4 )
Prior Service Cost	—	—
Gross Amount in Accumulated Other Comprehensive Income	(2.6	)(2.4 )
Income Tax Effect	(1.0	)(0.9 )
Net Amount in Accumulated Other Comprehensive Income	\$(1.6	)(1.5 )

TABLE 98: NET PERIODIC POSTRETIREMENT (BENEFIT) EXPENSE

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31, 2015	2014	2013
Service Cost	\$0.1	\$0.1	\$0.1
Interest Cost	1.4	1.5	1.2
Amortization			
Net Gain	—	(0.6	)(1.2 )
Prior Service Benefit	—	—	(3.0 )
Net Periodic Postretirement (Benefit) Expense	\$1.5	\$1.0	\$(2.9 )

TABLE 99: CHANGE IN ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION

(In Millions)	FOR THE YEAR	
	ENDED	DECEMBER 31,
	2015	2014
Beginning Balance	\$33.4	\$31.2
Service Cost	0.1	0.1
Interest Cost	1.4	1.5
Actuarial Loss	(0.2	)3.0
Net Claims Paid	(2.5	)(3.1 )

Medicare Subsidy	—	0.7
Ending Balance	\$32.2	\$33.4

Effective December 31, 2015, Northern Trust changed from the RP-2014 mortality table with improvement scale MP-2014, to the aggregate RP-2014 mortality table with adjustment from 2006 to 2014 to reflect improvement scale MP-2015, and with future improvement under scale MP-2015 released by the Society of Actuaries in October 2015.

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TABLE 100: ESTIMATED FUTURE BENEFIT PAYMENTS

(In Millions)	TOTAL POSTRETIREMENT MEDICAL BENEFITS
2016	\$ 2.8
2017	2.9
2018	3.0
2019	2.9
2020	2.8
2021-2025	11.3

Net periodic postretirement (benefit) expense for 2016 is not expected to include any amortization from AOCI of the net actuarial gain. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4.71% at December 31, 2015, and 4.25% at December 31, 2014. For measurement purposes, an 7.5% annual increase in the cost of pre-age 65 medical and drug benefits and a 9.3% annual increase in the cost of post-age 65 medical and drug benefits were assumed for 2015. These rates are both assumed to gradually decrease until they reach 5.0% in 2026. The health care cost trend rate assumption has an effect on the amounts reported. For example, increasing or decreasing the assumed health care trend rate by one percentage point in each year would have the following effect.

TABLE 101: HEALTH CARE COST TREND RATE ASSUMPTION

(In Millions)	1-PERCENTAGE POINT INCREASE	1-PERCENTAGE POINT DECREASE
Effect on Postretirement Benefit Obligation	\$ 0.9	\$ (0.8 )
Effect on Total Service and Interest Cost Components	—	—

Defined Contribution Plans. The Corporation and its subsidiaries maintain various defined contribution plans covering substantially all employees. The Corporation's contribution includes a matching component. The expense associated with defined contribution plans is charged to employee benefits and totaled \$46.8 million in 2015 and 2014, and \$43.0 million in 2013.

## Note 22 – Share-Based Compensation Plans

Northern Trust recognizes expense for the grant-date fair value of stock options and other share-based compensation granted to employees and non-employee directors.

Total compensation expense for share-based payment arrangements to employees and the associated tax impacts were as follows for the periods presented:

TABLE 102: TOTAL COMPENSATION EXPENSE FOR SHARE-BASED PAYMENT ARRANGEMENTS TO EMPLOYEES

(In Millions)	FOR THE YEAR ENDED DECEMBER 31,		
	2015	2014	2013
Restricted Stock Unit Awards	\$51.5	\$52.9	\$48.0
Stock Options	10.0	12.8	18.4
Performance Stock Units	14.9	12.0	7.4

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Total Share-Based Compensation Expense	\$76.4	\$77.7	\$73.8
Tax Benefits Recognized	\$28.8	\$29.1	\$27.7

As of December 31, 2015, there was \$123.6 million of unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Corporation's share-based compensation plans. That cost is expected to be recognized as expense over a weighted-average period of approximately two years.

The Northern Trust Corporation 2012 Stock Plan (2012 Plan) is administered by the Compensation and Benefits Committee (Committee) of the Board of Directors. All employees of the Corporation and its subsidiaries and all directors of the Corporation are eligible to receive awards under the 2012 Plan. The 2012 Plan provides for the grant of nonqualified stock options, incentive stock options, stock appreciation rights, stock awards, stock units and performance stock units.

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Grants are outstanding under the 2012 Plan and the Amended and Restated Northern Trust Corporation 2002 Stock Plan (2002 Plan), a predecessor plan. The total number of shares of the Corporation's common stock authorized for issuance under the 2012 Plan is 30,000,000 plus shares forfeited under the 2002 Plan. As of December 31, 2015, shares available for future grant under the 2012 Plan, including shares forfeited under the 2002 Plan, totaled 28,597,071.

The following describes Northern Trust's share-based payment arrangements and applies to awards under the 2012 Plan and the 2002 Plan, as applicable.

**Stock Options.** Stock options consist of options to purchase common stock at prices not less than 100% of the fair value thereof on the date the options are granted. Options have a maximum 10 year life and generally vest and become exercisable in 1 year to 4 years after the date of grant. In addition, all options may become exercisable either upon a "change of control" as defined in the 2012 Plan and the 2002 Plan or, in the case of options issued after September 2012, upon certain involuntary terminations of employment following a change of control. All options terminate at such time as determined by the Committee and as provided in the terms and conditions of the respective option grants. The weighted-average assumptions used for options granted during the years ended December 31 are as follows:

TABLE 103: WEIGHTED-AVERAGE ASSUMPTIONS USED FOR OPTIONS GRANTED

	2015	2014	2013	
Expected Term (in Years)	7.1	7.3	7.6	
Dividend Yield	2.07	%2.16	%2.38	%
Expected Volatility	30.4	30.1	29.5	
Risk-Free Interest Rate	1.83	2.02	1.43	

The expected term of options represents the period of time options granted are expected to be outstanding based primarily on the historical exercise behavior attributable to previous option grants. Dividend yield represents the estimated yield from dividends paid on the Corporation's common stock over the expected term of the options. Expected volatility is determined based on a combination of the historical volatility of Northern Trust's stock price and the implied volatility of traded options on Northern Trust stock. The risk free interest rate is based on the U.S. Treasury yield curve at the time of grant for a period equal to the expected term of the options granted. The following table provides information about stock options granted, vested, and exercised in the years ended December 31, 2015, 2014, and 2013.

TABLE 104: STOCK OPTIONS GRANTED, VESTED, AND EXERCISED

(In Millions, Except Per Share Information)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
Weighted Average Grant-Date Per Share Fair Value of Stock Options Granted	\$18.72	\$16.22	\$12.80
Grant-Date Fair Value of Stock Options Vested	16.0	21.9	30.0
Stock Options Exercised			
Intrinsic Value as of Exercise Date	32.1	35.3	26.9
Cash Received	94.0	127.5	146.2
Tax Deduction Benefits Realized	30.1	12.9	9.8



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The following is a summary of changes in nonvested stock options for the year ended December 31, 2015.

TABLE 105: CHANGES IN NONVESTED STOCK OPTIONS

NONVESTED OPTIONS	SHARES	WEIGHTED-AVERAGE GRANT-DATE FAIR VALUE PER SHARE
Nonvested at December 31, 2014	2,028,560	\$ 13.60
Granted	505,770	18.72
Vested	(1,161,865	) 13.79
Forfeited or Cancelled	(31,579	) 14.87
Nonvested at December 31, 2015	1,340,886	\$ 15.12

A summary of the status of stock options under the 2012 Plan and the 2002 Plan at December 31, 2015, and changes during the year then ended, are presented in the table below.

TABLE 106: STATUS OF STOCK OPTIONS AND CHANGES

(\$ In Millions Except Per Share Information)	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (YEARS)	AGGREGATE INTRINSIC VALUE
Options Outstanding, December 31, 2014	9,671,081	\$54.70		
Granted	505,770	70.21		
Exercised	(1,721,282	) 54.64		
Forfeited, Expired or Cancelled	(184,299	) 55.41		
Options Outstanding, December 31, 2015	8,271,270	\$55.51	4.7	\$ 141.6
Options Exercisable, December 31, 2015	6,930,383	\$55.12	4.1	\$ 121.4

Restricted Stock Unit Awards. Restricted stock unit awards may be granted to participants which entitle them to receive a payment in the Corporation's common stock or cash under the terms of the 2012 Plan and such other terms and conditions as the Committee deems appropriate. Each restricted stock unit provides the recipient the opportunity to receive one share of stock for each stock unit that vests. The restricted stock units granted in 2015 predominately vest at a rate equal to 50% on the third anniversary date of the grant and 50% on the fourth anniversary date. Restricted stock unit grants totaled 970,317, 1,086,241, and 1,181,321, with weighted average grant-date fair values of \$70.79, \$61.17, and \$52.82 per share, for the years ended December 31, 2015, 2014, and 2013, respectively. The total fair value of restricted stock units vested during the years ended December 31, 2015, 2014, and 2013, was \$58.1 million, \$63.9 million, and \$47.0 million, respectively.

A summary of the status of outstanding restricted stock unit awards under the 2012 Plan and the 2002 Plan at December 31, 2015, and changes during the year then ended, is presented in the table below.

TABLE 107: OUTSTANDING RESTRICTED STOCK UNIT AWARDS

(\$ In Millions)

NUMBER

Explanation of Responses:

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		AGGREGATE INTRINSIC VALUE
Restricted Stock Unit Awards Outstanding, December 31, 2014	3,381,909	\$ 227.9
Granted	970,317	
Distributed	(831,661 )	
Forfeited	(117,595 )	
Restricted Stock Unit Awards Outstanding, December 31, 2015	3,402,970	\$ 245.3
Units Convertible at December 31, 2015	180,751	\$ 13.0



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The following is a summary of nonvested restricted stock unit awards at December 31, 2015, and changes during the year then ended.

TABLE 108: NONVESTED RESTRICTED STOCK UNIT AWARDS

NONVESTED RESTRICTED STOCK UNITS	NUMBER	WEIGHTED AVERAGE GRANT-DATE FAIR VALUE PER UNIT	WEIGHTED AVERAGE REMAINING VESTING TERM (YEARS)
Nonvested at December 31, 2014	3,194,899	\$53.14	1.9
Granted	970,317	70.79	
Vested	(825,402)	)48.31	
Forfeited	(117,595)	)58.30	
Nonvested at December 31, 2015	3,222,219	\$59.50	1.9

Performance Stock Units. Each performance stock unit provides the recipient the opportunity to receive one share of stock for each stock unit that vests over a three-year performance period, subject to satisfaction of specified performance targets that are a function of return on equity and continued employment until the end of the vesting period. The number of performance stock units that may vest ranges from 0% to 125% of the original award granted based on the attainment of the applicable three-year average annual return on equity target. Distribution of the shares is then made after vesting.

During the years ended December 31, 2015 and 2014, respectively, 272,319 and 249,618 performance stock units were granted with weighted average grant-date fair values of \$61.14 and \$53.08, respectively. Performance stock units outstanding at December 31, 2015 and 2014, respectively, had aggregate intrinsic values of \$56.7 million and \$48.8 million and weighted average remaining vesting terms of 1.8 and 2.2 years, respectively.

Non-employee Director Stock Awards. Stock units with total values of \$1.2 million (16,449 units), \$1.0 million (16,770 units), and \$1.1 million (20,599 units) were granted to non-employee directors in 2015, 2014, and 2013, respectively, which vest or vested on the date of the annual meeting of the Corporation's stockholders in the following years. Total expense recognized on these grants was \$1.1 million, \$1.0 million, and \$1.1 million in 2015, 2014, and 2013, respectively. Stock units granted to non-employee directors do not have voting rights. Each stock unit entitles a director to one share of common stock at vesting, unless a director elects to defer receipt of the shares. Directors may elect to defer the payment of their annual stock unit grant and cash-based compensation until termination of services as director. Deferred cash compensation is converted into stock units representing shares of common stock of the Corporation. Distributions of deferred stock units are made in stock. Distributions of the stock unit accounts that relate to cash-based compensation are made in cash based on the fair value of the stock units at the time of distribution.

## Note 23 – Cash-Based Compensation Plans

Various incentive plans provide for cash incentives and bonuses to selected employees based upon accomplishment of corporate net income objectives, goals of the reporting segments and support functions, and individual performance. The provision for awards under these plans is charged to compensation expense and totaled \$233.0 million in 2015, \$212.4 million in 2014, and \$192.4 million in 2013.

## Note 24 – Contingent Liabilities

Legal Proceedings. In the normal course of business, the Corporation and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions, including, but not limited to, actions brought on behalf of various claimants or classes of claimants, regulatory matters, employment matters and challenges from tax authorities regarding the amount of taxes due. In certain of these actions and proceedings, claims for substantial monetary damages or adjustments to recorded tax liabilities are asserted.

Based on current knowledge, after consultation with legal counsel and after taking into account current accruals, management does not believe that losses, if any, arising from pending litigation or threatened legal actions or regulatory

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matters will have a material adverse effect on the consolidated financial position or liquidity of the Corporation, although such matters could have a material adverse effect on the Corporation's operating results for a particular period.

Under GAAP, (i) an event is "probable" if the "future event or events are likely to occur"; (ii) an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely"; and (iii) an event is "remote" if "the chance of the future event or events occurring is slight."

For the reasons set out in this paragraph, the outcome of some matters is inherently difficult to predict and/or the range of loss cannot be reasonably estimated. This may be the case in matters that (i) will be decided by a jury, (ii) are in early stages, (iii) involve uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (iv) are subject to appeals or motions, (v) involve significant factual issues to be resolved, including with respect to the amount of damages, (vi) do not specify the amount of damages sought or (vii) seek very large damages based on novel and complex damage and liability legal theories. Accordingly, the Corporation cannot reasonably estimate the eventual outcome of these pending matters, the timing of their ultimate resolution or what the eventual loss, fines or penalties, if any, related to each pending matter will be.

In accordance with applicable accounting guidance, the Corporation records accruals for litigation and regulatory matters when those matters present loss contingencies that are both probable and reasonably estimable. When loss contingencies are not both probable and reasonably estimable, the Corporation does not record accruals. No material accruals have been recorded for pending litigation or threatened legal actions or regulatory matters.

For a limited number of the matters for which a loss is reasonably possible in future periods, whether in excess of an accrued liability or where there is no accrued liability, the Corporation is able to estimate a range of possible loss. As of December 31, 2015, the Corporation has estimated the upper end of the range of reasonably possible losses for these matters to be approximately \$125 million in the aggregate. This aggregate amount of reasonably possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions and known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results will vary significantly from the current estimate.

In certain other pending matters, there may be a range of reasonably possible losses (including reasonably possible losses in excess of amounts accrued) that cannot be reasonably estimated for the reasons described above. Such matters are not included in the estimate of reasonably possible losses identified above.

A number of participants in Northern Trust's securities lending program, which is associated with its asset servicing business, have commenced either individual lawsuits or purported class actions in which they claim, among other things, that Northern Trust failed to exercise prudence in the investment management of the collateral received from the borrowers of the securities, resulting in losses that they seek to recover. The cases assert various contractual, statutory and common law claims, including claims for breach of fiduciary duty under common law and under the Employee Retirement Income Security Act (ERISA). In 2013, Northern Trust recorded a \$19.2 million pre-tax charge in connection with a settlement to resolve certain claims related to two of these lawsuits. Other lawsuits and claims related to securities lending are not part of the previously-announced settlement, and accordingly remain pending. As previously disclosed in April 2014, Northern Trust remains subject to an investigation by the SEC related to Northern Trust's securities lending activities. Northern Trust continues to cooperate with the SEC in this investigation. In January 2015, the Public Prosecutor's Office of France recommended that certain charges be brought against Northern Trust Fiduciary Services (Guernsey) Limited (NTFS), an indirect subsidiary of the Corporation, relating to the administration of two trusts for which NTFS serves as trustee. In April 2015, a French investigating magistrate judge charged NTFS with complicity in estate tax fraud. Charges also were brought against a number of other persons and entities related to this matter. As trustee, NTFS provided no tax advice and had no involvement in the preparation or filing of the challenged estate tax filings. NTFS has contested the criminal charge in the French court. The trial of all defendants began on January 4, 2016. On January 6, 2016, the trial court postponed the trial while the French Supreme Court considers certain constitutional questions raised by some of the individual defendants. No new trial date has been set.

Visa Class B Common Shares. Northern Trust, as a member of Visa U.S.A. Inc. (Visa U.S.A.) and in connection with the 2007 restructuring of Visa U.S.A. and its affiliates and the 2008 initial public offering of Visa Inc. (Visa), received certain Visa Class B common shares. The Visa Class B common shares are subject to certain selling restrictions until the final resolution of the covered litigation noted below, at which time the shares are convertible into Visa Class A common shares based on a conversion rate dependent upon the ultimate cost of resolving the covered litigation. Certain members of Visa U.S.A. are obligated to indemnify Visa for losses resulting from certain litigation relating to interchange fees (the covered litigation). On October 19, 2012, Visa signed a settlement agreement with plaintiff representatives for binding settlement of the covered litigation. On January 14, 2014, the trial court entered a final judgment order approving the settlement with the class plaintiffs, which is subject to appeal. A number of objectors have appealed from that order and more than 30 opt-out cases have been filed by merchants in various federal district courts.

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The ultimate resolution of the covered litigation and the timing for removal of the selling restrictions on the Visa Class B common shares are uncertain.

In June 2015, Northern Trust recorded a \$99.9 million net pre-tax gain on the sale of 1.0 million of its Visa Class B common shares. This sale does not affect Northern Trust's risk related to the impact of the covered litigation on the rate at which such shares will ultimately convert into Visa Class A common shares. As of December 31, 2015, Northern Trust continued to hold approximately 5.2 million Visa Class B common shares, which are recorded at their original cost basis of zero.

## Note 25 – Derivative Financial Instruments

Northern Trust is a party to various derivative financial instruments that are used in the normal course of business to meet the needs of its clients; as part of its trading activity for its own account; and as part of its risk management activities. These instruments include foreign exchange contracts, interest rate contracts, total return swap contracts, and credit default swap contracts.

Northern Trust's primary risks associated with these instruments is the possibility that interest rates, foreign exchange rates, equity prices, or credit spreads could change in an unanticipated manner, resulting in higher costs or a loss in the underlying value of the instrument. These risks are mitigated by establishing limits, monitoring the level of actual positions taken against such established limits, and monitoring the level of any interest rate sensitivity gaps created by such positions. When establishing position limits, market liquidity and volatility, as well as experience in each market, are taken into account.

Credit risk associated with derivative instruments relates to the failure of the counterparty and the failure of Northern Trust to pay based on the contractual terms of the agreement, and is generally limited to the unrealized fair value gains and losses, respectively, on these instruments, net of any cash collateral received or deposited. The amount of credit risk will increase or decrease during the lives of the instruments as interest rates, foreign exchange rates, equity prices, or credit spreads fluctuate. Northern Trust's risk is controlled by limiting such activity to an approved list of counterparties and by subjecting such activity to the same credit and quality controls as are followed in lending and investment activities. Credit Support Annexes and other similar agreements are currently in place with a number of Northern Trust's counterparties which mitigate the aforementioned credit risk associated with derivative activity conducted with those counterparties by requiring that significant net unrealized fair value gains be supported by collateral placed with Northern Trust.

Northern Trust has elected to net derivative assets and liabilities when legally enforceable master netting arrangements or similar agreements exist between Northern Trust and the counterparty. Derivative assets and liabilities recorded in the consolidated balance sheets were each reduced by \$1.3 billion and \$1.9 billion as of December 31, 2015 and 2014, respectively, as a result of master netting arrangements and similar agreements in place. Derivative assets and liabilities recorded at December 31, 2015 also reflect reductions of \$322.8 million and \$440.3 million, respectively, as a result of cash collateral received from and deposited with derivative counterparties. This compares with reductions of derivative assets and liabilities of \$315.8 million and \$1.2 billion, respectively, at December 31, 2014. Additional cash collateral received from and deposited with derivative counterparties totaling \$31.1 million and \$27.3 million, respectively, as of December 31, 2015, and \$19.6 million and \$153.2 million, respectively, as of December 31, 2014, were not offset against derivative assets and liabilities on the consolidated balance sheets as the amounts exceeded the net derivative positions with those counterparties. Northern Trust centrally clears certain interest rate derivative instruments as required under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Securities posted as collateral for these transactions totaled \$15.4 million and \$27.4 million at December 31, 2015 and 2014, respectively, are not offset against derivative assets and liabilities on the consolidated balance sheets, and the counterparty receiving the securities as collateral does not have the right to repledge or sell the securities.

Certain master netting arrangements Northern Trust enters into with derivative counterparties contain credit risk-related contingent features in which the counterparty has the option to declare Northern Trust in default and accelerate cash settlement of net derivative liabilities with the counterparty in the event Northern Trust's credit rating

falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a liability position was \$553.2 million and \$299.5 million at December 31, 2015 and 2014, respectively. Cash collateral amounts deposited with derivative counterparties on those dates included \$163.0 million and \$272.9 million, respectively, posted against these liabilities, resulting in a net maximum amount of termination payments that could have been required at December 31, 2015 and 2014 of \$390.2 million and \$26.6 million, respectively. Accelerated settlement of these liabilities would not have a material effect on the consolidated financial position or liquidity of Northern Trust.

Foreign exchange contracts are agreements to exchange specific amounts of currencies at a future date, at a specified rate of exchange. Foreign exchange contracts are entered into primarily to meet the foreign exchange needs of clients.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign exchange contracts are also used for trading purposes and risk management. For risk management purposes, Northern Trust uses foreign exchange contracts to reduce its exposure to changes in foreign exchange rates relating to certain forecasted non-functional currency denominated revenue and expenditure transactions, foreign currency denominated assets and liabilities, and net investments in non-U.S. affiliates.

Interest rate contracts include swap and option contracts. Interest rate swap contracts involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. Northern Trust enters into interest rate swap contracts with its clients and also may utilize such contracts to reduce or eliminate the exposure to changes in the cash flows or fair value of hedged assets or liabilities due to changes in interest rates. Interest rate option contracts may include caps, floors, collars and swaptions, and provide for the transfer or reduction of interest rate risk, typically in exchange for a fee. Northern Trust enters into option contracts primarily as a seller of interest rate protection to clients. Northern Trust receives a fee at the outset of the agreement for the assumption of the risk of an unfavorable change in interest rates. This assumed interest rate risk is then mitigated by entering into an offsetting position with an outside counterparty. Northern Trust may also purchase or enter into option contracts for risk management purposes including to reduce the exposure to changes in the cash flows of hedged assets due to changes in interest rates.

Client-Related and Trading Derivative Instruments. Approximately 97% of Northern Trust's derivatives outstanding at December 31, 2015 and 2014, measured on a notional value basis, relate to client-related and trading activities. These activities consist principally of providing foreign exchange services to clients in connection with Northern Trust's global custody business. However, in the normal course of business, Northern Trust also engages in trading of currencies for its own account.

The following table shows the notional and fair values of client-related and trading derivative financial instruments. Notional amounts of derivative financial instruments do not represent credit risk, and are not recorded in the consolidated balance sheets. They are used merely to express the volume of this activity. Northern Trust's credit-related risk of loss is limited to the positive fair value of the derivative instrument, which is significantly less than the notional amount.

TABLE 109: NOTIONAL AND FAIR VALUES OF CLIENT-RELATED AND TRADING DERIVATIVE FINANCIAL INSTRUMENTS

(In Millions)	DECEMBER 31, 2015			DECEMBER 31, 2014		
	NOTIONAL VALUE	ASSET	LIABILITY	NOTIONAL VALUE	ASSET	LIABILITY
Foreign Exchange Contracts	\$246,628.5	\$2,541.8	\$2,500.4	\$257,568.7	\$4,149.5	\$4,072.0
Interest Rate Contracts	6,209.5	111.1	108.5	5,353.8	105.5	101.3
Total	\$252,838.0	\$2,652.9	\$2,608.9	\$262,922.5	\$4,255.0	\$4,173.3

Changes in the fair value of client-related and trading derivative instruments are recognized currently in income. The following table shows the location and amount of gains and losses recorded in the consolidated statements of income for the years ended December 31, 2015, 2014, and 2013.

TABLE 110: LOCATION AND AMOUNT OF GAINS AND LOSSES RECORDED IN INCOME

(In Millions)	LOCATION OF DERIVATIVE GAIN/(LOSS) RECOGNIZED IN INCOME	AMOUNT OF DERIVATIVE GAIN/(LOSS) RECOGNIZED IN INCOME		
		DECEMBER 31, 2015	2014	2013
Foreign Exchange Contracts	Foreign Exchange Trading Income	\$ 261.8	\$ 210.1	\$ 244.4

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Interest Rate Contracts	Security Commissions and Trading Income	17.5	9.3	12.7
Total		\$ 279.3	\$ 219.4	\$ 257.1

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Risk Management Instruments. Northern Trust uses derivative instruments to hedge its exposure to foreign currency, interest rate, equity price, and credit risk.

The following table identifies the types and classifications of derivative instruments formally designated as hedges under GAAP and used by Northern Trust to manage risk, their notional and fair values, and the respective risks addressed.

TABLE 111: NOTIONAL AND FAIR VALUES OF DESIGNATED RISK MANAGEMENT DERIVATIVE FINANCIAL INSTRUMENTS

(In Millions)	DERIVATIVE INSTRUMENT	RISK CLASSIFICATION	December 31, 2015			December 31, 2014		
			NOTIONAL VALUE	FAIR VALUE ASSETS	LIABILITY	NOTIONAL VALUE	FAIR VALUE ASSETS	LIABILITY
<b>FAIR VALUE HEDGES</b>								
Available for Sale Investment Securities	Interest Rate Swap Contracts	Interest Rate	\$3,042.1	\$10.8	\$19.8	\$2,859.5	\$12.7	\$28.5
Senior Notes and Long-Term Subordinated Debt	Interest Rate Swap Contracts	Interest Rate	1,250.0	104.6	2.2	1,250.0	112.8	2.0
<b>CASH FLOW HEDGES</b>								
Forecasted Foreign Currency Denominated Transactions	Foreign Exchange Contracts	Foreign Currency	367.4	8.5	13.8	344.9	6.0	14.8
Available for Sale Investment Securities	Interest Rate Contracts	Interest Rate	\$935.0	\$2.0	\$0.7	\$635.0	\$1.3	\$—
<b>NET INVESTMENT HEDGES</b>								
Net Investments in Non-U.S. Affiliates	Foreign Exchange Contracts	Foreign Currency	1,961.5	72.9	1.5	1,795.4	118.9	3.4
<b>Total</b>			<b>7,556.0</b>	<b>198.8</b>	<b>38.0</b>	<b>6,884.8</b>	<b>251.7</b>	<b>48.7</b>

In addition to the above, Sterling-denominated debt, totaling \$243.9 million at December 31, 2014, was designated as a hedge of the foreign exchange risk associated with the net investment in certain non-U.S. affiliates. This debt matured during the quarter ended March 31, 2015.

Derivatives are designated as fair value hedges to limit Northern Trust's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The following table shows the location and amount of derivative gains and losses recorded in the consolidated statements of income related to fair value hedges for the years ended December 31, 2015, 2014, and 2013.

TABLE 112: LOCATION AND AMOUNT OF DERIVATIVE GAINS AND LOSSES RECORDED IN INCOME

(In Millions)	DERIVATIVE INSTRUMENT	LOCATION OF DERIVATIVE GAIN/(LOSS) RECOGNIZED IN INCOME	AMOUNT OF DERIVATIVE GAIN/(LOSS) RECOGNIZED IN INCOME DECEMBER 31,		
			2015	2014	2013
Available for Sale Investment Securities	Interest Rate Swap Contracts	Interest Income	\$ (21.1 )	\$ (36.4 )	\$ 26.3
Senior Notes and Long-Term Subordinated Debt	Interest Rate Swap Contracts	Interest Expense	34.7	104.0	(44.9 )

Total	\$ 13.6	\$ 67.6	\$ (18.6 )
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There was no ineffectiveness or change in the fair value of hedged items recognized in earnings for fair value long-haul hedges during the years ended December 31, 2015 and 2014. There were \$0.9 million of losses recorded within the fair values of hedged items for long-haul hedges and \$0.8 million of losses from ineffectiveness recorded during the year ended December 31, 2013.

Derivatives are also designated as cash flow hedges in order to minimize the variability in cash flows of earning assets or forecasted transactions caused by movements in interest or foreign exchange rates. There was no ineffectiveness recognized in earnings for cash flow hedges during the years ended December 31, 2015, 2014, or 2013. As of December 31, 2015, 23 months was the maximum length of time over which the exposure to variability in future cash flows of forecasted foreign currency denominated transactions was being hedged.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides cash flow hedge derivative gains and losses that were recognized in AOCI and the amounts reclassified to earnings during the years ended December 31, 2015, 2014 and 2013.

TABLE 113: CASH FLOW HEDGE DERIVATIVE GAINS AND LOSSES RECOGNIZED IN AOCI AND RECLASSIFIED TO EARNINGS

(In Millions)	FOREIGN EXCHANGE CONTRACTS (BEFORE TAX)			INTEREST RATE CONTRACTS (BEFORE TAX)		
	2015	2014	2013	2015	2014	2013
Net Gain/(Loss) Recognized in AOCI	\$(1.2 )	\$(9.4 )	\$ 2.1	\$—	\$0.7	\$—
Net Gain/(Loss) Reclassified from AOCI to Earnings						
Other Operating Income	(8.0 )	3.3	(2.1 )	—	—	—
Interest Income	—	—	—	5.2	1.2	—
Other Operating Expense	(1.9 )	(0.5 )	(2.6 )	—	—	—
Total	\$(9.9 )	\$ 2.8	\$(4.7 )	\$5.2	\$1.2	\$—

There were no gains or losses reclassified during the years ended December 31, 2015, 2014, and 2013 as a result of the discontinuance of forecasted transactions that were no longer probable of occurring. It is estimated that a net loss of \$5.0 million will be reclassified into earnings within the next twelve months relating to cash flow hedges of foreign currency denominated transactions. It is estimated that a net gain of \$2.4 million will be reclassified into earnings upon the receipt of interest payments on earning assets within the next twelve months relating to cash flow hedges of available for sale investment securities.

Certain foreign exchange contracts and qualifying nonderivative instruments are designated as net investment hedges to minimize Northern Trust's exposure to variability in the foreign currency translation of net investments in non-U.S. branches and subsidiaries. For net investment hedges, there was no ineffectiveness recorded for these hedges during the years ended December 31, 2015, 2014, and 2013.

The following table provides net investment hedge gains and losses recognized in AOCI during the years ended December 31, 2015 and 2014.

TABLE 114: NET INVESTMENT HEDGE GAINS AND LOSSES RECOGNIZED IN AOCI

(In Millions)	AMOUNT OF HEDGING INSTRUMENT GAIN/(LOSS) RECOGNIZED IN AOCI (BEFORE TAX)	
	2015	2014
Foreign Exchange Contracts	\$ 143.6	\$ 127.4
Sterling Denominated Subordinated Debt	5.0	15.2
Total	\$ 148.6	\$ 142.6

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Derivatives that are not formally designated as hedges under GAAP are entered into for risk management purposes. Foreign exchange contracts are entered into to manage the foreign currency risk of non-U.S.-dollar-denominated assets and liabilities, the net investment in certain non-U.S. affiliates, commercial loans, and forecasted foreign-currency-denominated transactions. A swap related to the sale of certain Visa Class B common shares was entered into which retains the risks associated with the ultimate conversion of the Visa Class B common shares into shares of Visa Class A common shares. Credit default swaps were entered into to manage the credit risk associated with certain loans and loan commitments. Total return swaps are entered into to manage the equity price risk associated with certain investments. The following table identifies the types of risk management derivative instruments not formally designated as hedges and their notional amounts and fair values.

TABLE 115: NOTIONAL AND FAIR VALUES OF NON DESIGNATED RISK MANAGEMENT DERIVATIVE INSTRUMENTS

(In Millions)	DECEMBER 31, 2015			DECEMBER 31, 2014		
	NOTIONAL VALUE	FAIR VALUE		NOTIONAL VALUE	FAIR VALUE	
		ASSET	LIABILITY		ASSET	LIABILITY
Foreign Exchange Contracts	\$244.6	\$0.2	\$ 3.7	\$246.3	\$0.8	\$ 5.3
Other Financial Derivatives <sup>(1)</sup>	\$152.8	\$—	\$ 10.9	\$—	\$—	\$—
Total	\$397.4	\$0.2	\$ 14.6	\$246.3	\$0.8	\$ 5.3

(1) This line consists of a swap related to the sale of certain Visa Class B common shares and total return swaps.

The following table provides the location and amount of gains and losses recorded in the consolidated statements of income for the years ended December 31, 2015, 2014, and 2013 for derivative instruments not formally designated as hedges under GAAP.

TABLE 116: LOCATION AND AMOUNT OF GAINS AND LOSSES RECORDED IN INCOME

(In Millions)	LOCATION OF DERIVATIVE GAIN/ (LOSS) RECOGNIZED IN INCOME	AMOUNT RECOGNIZED IN INCOME		
		2015	2014	2013
Credit Default Swap Contracts	Other Operating Income	\$ —	\$ —	\$ (0.1 )
Foreign Exchange Contracts	Other Operating Income	(10.9 )	(14.3 )	(4.0 )
Other Financial Derivatives <sup>(1)</sup>	Other Operating Income	(12.3 )	—	—
Total		\$ (23.2 )	\$ (14.3 )	\$ (4.1 )

(1) This line includes the statement of income impact of a swap related to the sale of certain Visa Class B common shares and total return swaps.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Note 26 – Offsetting of Assets and Liabilities

The following tables provide information regarding the offsetting of derivative assets and of securities purchased under agreements to resell within the consolidated balance sheets as of December 31, 2015 and 2014.

TABLE 117: OFFSETTING OF DERIVATIVE ASSETS AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

December 31, 2015

(In Millions)	GROSS RECOGNIZED ASSETS	GROSS AMOUNTS OFFSET	NET AMOUNTS PRESENTED	GROSS AMOUNTS NOT OFFSET	NET AMOUNT <sup>(3)</sup>
Derivative Assets <sup>(1)</sup>					
Foreign Exchange Contracts Over the Counter (OTC)	\$ 1,636.0	\$ 1,194.3	\$ 441.7	\$ —	\$ 441.7
Interest Rate Swaps OTC	170.3	21.5	148.8	—	148.8
Interest Rate Swaps Exchange Cleared	58.2	38.1	20.1	—	20.1
Cross Product Netting Adjustment	—	23.5	—	—	—
Cross Product Collateral Adjustment	—	322.8	—	—	—

Total Derivatives Subject to a Master Netting Arrangement	1,864.5	1,600.2	264.3	—	264.3
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Total Derivatives Not Subject to a Master Netting Arrangement	987.4	—	987.4	—	987.4
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Total Derivatives	2,851.9	1,600.2	1,251.7	—	1,251.7
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Securities Purchased under Agreements to Resell <sup>(2)</sup>	\$ 1,600.0	\$ —	\$ 1,600.0	\$ 1,600.0	\$ —
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December 31, 2014

(In Millions)	GROSS RECOGNIZED ASSETS	GROSS AMOUNTS OFFSET	NET AMOUNTS PRESENTED	GROSS AMOUNTS NOT OFFSET	NET AMOUNT <sup>(3)</sup>
Derivative Assets <sup>(1)</sup>					
Foreign Exchange Contracts OTC	\$ 3,442.8	\$ 1,889.8	\$ 1,553.0	\$ —	\$ 1,553.0
Interest Rate Swaps OTC	183.9	32.1	151.8	—	151.8
Interest Rate Swaps Exchange Cleared	48.4	13.1	35.3	—	35.3
Cross Product Netting Adjustment	—	6.3	—	—	—
Cross Product Collateral Adjustment	—	315.8	—	—	—

Total Derivatives Subject to a Master Netting Arrangement	3,675.1	2,257.1	1,418.0	—	1,418.0
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Total Derivatives Not Subject to a Master Netting Arrangement	832.4	—	832.4	—	832.4
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Total Derivatives	4,507.5	2,257.1	2,250.4	—	2,250.4
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Explanation of Responses:

Securities Purchased under Agreements to Resell <sup>(2)</sup>	\$ 1,000.0	\$—	\$ 1,000.0	\$ 1,000.0	\$—
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(1) Derivative assets are reported in other assets in the consolidated balance sheets. Other assets (excluding derivative assets) totaled \$3,212.7 million and \$3,614.7 million as of December 31, 2015 and 2014, respectively.

(2) Securities purchased under agreements to resell are reported in federal funds sold and securities purchased under agreements to resell in the consolidated balance sheets. Federal funds sold totaled \$14.2 million and \$62.7 million as of December 31, 2015 and 2014, respectively.

(3) Northern Trust did not possess any cash collateral that was not offset in the consolidated balance sheets that could have been used to offset the net amounts presented in the consolidated balance sheets as of December 31, 2015 and 2014.

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The following tables provide information regarding the offsetting of derivative liabilities and of securities sold under agreements to repurchase within the consolidated balance sheets as of December 31, 2015 and 2014.

TABLE 118: OFFSETTING OF DERIVATIVE LIABILITIES AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

December 31, 2015

(In Millions)	GROSS RECOGNIZED LIABILITIES	GROSS AMOUNTS OFFSET	NET AMOUNTS PRESENTED	GROSS AMOUNTS NOT OFFSET	NET AMOUNT <sup>(2)</sup>
Derivative Liabilities <sup>(1)</sup>					
Foreign Exchange Contracts OTC	\$ 2,119.7	\$ 1,194.3	\$ 925.4	\$ —	\$ 925.4
Interest Rate Swaps OTC	93.1	21.5	71.6	—	71.6
Interest Rate Swaps Exchange Cleared	38.1	38.1	—	—	—
Other Financial Derivatives	10.9	—	10.9	—	10.9
Cross Product Netting Adjustment	—	23.5	—	—	—
Cross Product Collateral Adjustment	—	440.2	—	—	—
Total Derivatives Subject to a Master Netting Arrangement	2,261.8	1,717.6	544.2	—	544.2
Total Derivatives Not Subject to a Master Netting Arrangement	399.7	—	399.7	—	399.7
Total Derivatives	2,661.5	1,717.6	943.9	—	943.9
Securities Sold under Agreements to Repurchase	\$ 546.6	\$ —	\$ 546.6	\$ 546.6	\$ —

December 31, 2014

(In Millions)	GROSS RECOGNIZED LIABILITIES	GROSS AMOUNTS OFFSET	NET AMOUNTS PRESENTED	GROSS AMOUNTS NOT OFFSET	NET AMOUNT <sup>(2)</sup>
Derivative Liabilities <sup>(1)</sup>					
Foreign Exchange Contracts OTC	\$ 3,431.0	\$ 1,889.8	\$ 1,541.2	\$ —	\$ 1,541.2
Interest Rate Swaps OTC	118.7	32.1	86.6	—	86.6
Interest Rate Swaps Exchange Cleared	13.1	13.1	—	—	—
Cross Product Netting Adjustment	—	6.3	—	—	—
Cross Product Collateral Adjustment	—	1,232.0	—	—	—
Total Derivatives Subject to a Master Netting Arrangement	3,562.8	3,173.3	389.5	—	389.5
Total Derivatives Not Subject to a Master Netting Arrangement	664.5	—	664.5	—	664.5
Total Derivatives	4,227.3	3,173.3	1,054.0	—	1,054.0
	\$ 885.1	\$ —	\$ 885.1	\$ 885.1	\$ —

Explanation of Responses:

Securities Sold under Agreements to  
Repurchase

(1) Derivative liabilities are reported in other liabilities in the consolidated balance sheets. Other liabilities (excluding derivative liabilities) totaled \$2,131.7 million and \$2,794.1 million as of December 31, 2015 and 2014, respectively.  
(2) Northern Trust did not place any cash collateral with counterparties that was not offset in the consolidated balance sheets that could have been used to offset the net amounts presented in the consolidated balance sheets as of December 31, 2015 and 2014.

All of Northern Trust's securities sold under agreements to repurchase (repurchase agreements) and securities purchased under agreements to resell (reverse repurchase agreements) involve the transfer of financial assets in exchange for cash subject to a right and obligation to repurchase those assets for an agreed upon amount. In the event of a repurchase failure, the cash or financial assets are available for offset. All of Northern Trust's repurchase agreements and reverse repurchase agreements are subject to a master netting arrangement, which sets forth the rights and obligations for repurchase and offset. Under the master netting arrangement, Northern Trust is entitled to set off receivables from and collateral placed with a single counterparty against obligations owed to that counterparty. In addition, collateral held by Northern Trust can be offset against receivables from that counterparty. Derivative asset and liability positions with a single counterparty can be offset against each other in cases where legally enforceable master netting arrangements or similar agreements exist. Derivative assets and liabilities can be further offset by cash collateral received from, and deposited with, the transacting counterparty. The basis for this view is that, upon termination of transactions subject to a master netting arrangement or similar agreement, the individual derivative



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receivables do not represent resources to which general creditors have rights and individual derivative payables do not represent claims that are equivalent to the claims of general creditors. Effective in the second quarter of 2013, Northern Trust centrally clears certain interest rate derivative instruments as required under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. These transactions are subject to an agreement similar to a master netting arrangement, which has the same rights of offset as described above.

## Note 27 – Off-Balance-Sheet Financial Instruments

Commitments and Letters of Credit. Northern Trust, in the normal course of business, enters into various types of commitments and issues letters of credit to meet the liquidity and credit enhancement needs of its clients. The contractual amounts of these instruments represent the potential credit exposure should the instrument be fully drawn upon and the client default. To control the credit risk associated with entering into commitments and issuing letters of credit, Northern Trust subjects such activities to the same credit quality and monitoring controls as its lending activities. Commitments and letters of credit consist of the following:

Legally Binding Commitments to Extend Credit generally have fixed expiration dates or other termination clauses. Since a significant portion of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future loans or liquidity requirements.

Standby Letters of Credit obligate Northern Trust to meet certain financial obligations of its clients, if, under the contractual terms of the agreement, the clients are unable to do so. These instruments are primarily issued to support public and private financial commitments, including commercial paper, bond financing, initial margin requirements on futures exchanges, and similar transactions. Northern Trust is obligated to meet the entire financial obligation of these agreements and in certain cases is able to recover the amounts paid through recourse against collateral received or other participants.

Commercial Letters of Credit are instruments issued by Northern Trust on behalf of its clients that authorize a third party (the beneficiary) to draw drafts up to a stipulated amount under the specified terms and conditions of the agreement. Commercial letters of credit are issued primarily to facilitate international trade.

The following table shows the contractual amounts of commitments and letters of credit.

TABLE 119: COMMITMENTS AND LETTERS OF CREDIT

	DECEMBER	
(In Millions)	31,	2014
	2015	2014
Legally Binding Commitments to Extend Credit <sup>(1)</sup>	\$37,247.0	\$35,127.6
Standby Letters of Credit <sup>(2)</sup>	4,305.4	4,468.1
Commercial Letters of Credit	17.2	20.8

(1)These amounts exclude \$398.1 million and \$481.4 million of commitments participated to others at December 31, 2015 and 2014, respectively.

(2)These amounts include \$147.1 million and \$221.4 million of standby letters of credit secured by cash deposits or participated to others as of December 31, 2015 and 2014, respectively. The weighted average maturity of standby letters of credit was 24 months at December 31, 2015 and 27 months at December 31, 2014.

Other Off-Balance-Sheet Financial Instruments. As part of its securities custody activities and at the direction of its clients, Northern Trust lends securities owned by clients to borrowers who are reviewed and approved by the Northern Trust Counterparty Risk Management Committee. In connection with these activities, Northern Trust has issued indemnifications to certain clients against certain losses that are a direct result of a borrower's failure to return securities when due, should the value of such securities exceed the value of the collateral required to be posted.

Borrowers are required to fully collateralize securities received with cash or marketable securities. As securities are loaned, collateral is maintained at a minimum of 100% of the fair value of the securities plus accrued interest. The collateral is revalued on a daily basis. The amount of securities loaned as of December 31, 2015 and 2014 subject to indemnification was \$94.5 billion and \$98.1 billion, respectively. Because of the credit quality of the borrowers and the requirement to fully collateralize securities borrowed, management believes that the exposure to credit loss from this activity is not significant and no liability was recorded related to these indemnifications.

The Bank is a participating member of various cash, securities, and foreign exchange clearing and settlement organizations such as The Depository Trust Company in New York. It participates in these organizations on behalf of its clients and on its own behalf as a result of its own activities. A wide variety of cash and securities transactions are settled through these organizations, including those involving obligations of states and political subdivisions, asset-backed securities, commercial paper, dollar placements, and securities issued by the Government National Mortgage Association.

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As a result of its participation in cash, securities, and foreign exchange clearing and settlement organizations, the Bank could be responsible for a pro rata share of certain credit-related losses arising out of the clearing activities. The method in which such losses would be shared by the clearing members is stipulated in each clearing organization's membership agreement. Credit exposure related to these agreements varies from day to day, primarily as a result of fluctuations in the volume of transactions cleared through the organizations. The estimated credit exposure at December 31, 2015 and 2014 was approximately \$58 million and \$60 million, respectively, based on the membership agreements and clearing volume for those days. Controls related to these clearing transactions are closely monitored by management to protect the assets of Northern Trust and its clients.

## Note 28 – Variable Interest Entities

Variable Interest Entities (VIEs) are defined within GAAP as entities which either have a total equity investment that is insufficient to permit the entity to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. Investors that finance a VIE through debt or equity interests, or other counterparties that provide other forms of support, such as guarantees, subordinated fee arrangements, or certain types of derivative contracts, are variable interest holders in the entity and the variable interest holder, if any, that has both the power to direct the activities that most significantly impact the entity and a variable interest that could potentially be significant to the entity is deemed to be the VIE's primary beneficiary and is required to consolidate the VIE.

Leveraged Leases. In leveraged leasing transactions, Northern Trust acts as lessor of the underlying asset subject to the lease and typically funds 20-30% of the asset's cost via an equity ownership in a trust with the remaining 70-80% provided by third party non-recourse debt holders. In such transactions, the trusts, which are VIEs, are created to provide the lessee use of the property with substantially all of the rights and obligations of ownership. The lessee's maintenance and operation of the leased property has a direct effect on the fair value of the underlying property, and the lessee also has the ability to increase the benefits it can receive and limit the losses it can suffer by the manner in which it uses the property. As a result, Northern Trust has determined that it is not the primary beneficiary of these VIEs given it lacks the power to direct the activities that most significantly impact the economic performance of the VIEs.

Northern Trust's maximum exposure to loss as a result of its involvement with the leveraged lease trust VIEs is limited to the carrying amounts of its leveraged lease investments. As of December 31, 2015 and 2014, the carrying amounts of these investments, which are included in loans and leases in the consolidated balance sheets, were \$389.4 million and \$547.6 million, respectively. Northern Trust's funding requirements relative to the VIEs are limited to its invested capital. Northern Trust has no other liquidity arrangements or obligations to purchase assets of the VIEs that would expose Northern Trust to a loss.

Tax Credit Structures. Northern Trust invests in qualified affordable housing projects and community development entities (collectively, community development projects) that are designed to generate a return primarily through the realization of tax credits. The community development projects are formed as limited partnerships and LLCs in which Northern Trust invests as a limited partner/investor member through equity contributions. The economic performance of the community development projects, which are VIEs, is subject to the performance of their underlying investment and their ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. Northern Trust has determined that it is not the primary beneficiary of any community development projects as it lacks the power to direct the activities that most significantly impact the economic performance of the underlying investments or to affect their ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. This power is held by the general partners and managing members who exercise full and exclusive control of the operations of the VIEs.

Northern Trust's maximum exposure to loss as a result of its involvement with community development projects is limited to the carrying amounts of its investments, including any undrawn commitments. As of December 31, 2015 and 2014, the carrying amounts of these investments in community development projects that generate tax credits, included in other assets in the consolidated balance sheets, were \$173.5 million and \$208.9 million, respectively. As of December 31, 2015 and 2014, liabilities related to unfunded commitments on investments in tax credit community development projects, included in other liabilities in the consolidated balance sheets, were \$10.5 million and \$15.6 million, respectively. Northern Trust's funding requirements are limited to its invested capital and unfunded commitments for future equity contributions. Northern Trust has no exposure to loss from liquidity arrangements and no obligation to purchase assets of the community development projects.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Affordable housing tax credits and other tax benefits attributable to community development projects totaled \$52.5 million and \$58.1 million, respectively, as of December 31, 2015 and 2014.

Investment Funds. Northern Trust acts as asset manager for various funds in which clients of Northern Trust are investors. As an asset manager of funds, the Corporation earns a competitively priced fee that is based on assets managed and varies with each fund's investment objective. Periodically, Northern Trust makes seed capital investments to certain funds. As of December 31, 2015 Northern Trust had a \$25.3 million investment valued using net asset value per share, included in other assets, and a \$25.0 million unfunded commitment related to seed capital investments.

In June 2015, Northern Trust voluntarily elected to contribute an aggregate \$45.8 million of cash to four constant-dollar-net-asset-value investment funds (Funds) for which it serves as asset manager to bring the net asset values of such funds to \$1.00. The contributions, which were recorded to other operating expense in the consolidated statements of income, resulted in a pre-tax charge of \$45.8 million. Under GAAP, the contributions noted above are deemed to reflect Northern Trust's implicit interest in the credit risk of the Funds, which must be considered when determining whether it is the primary beneficiary of the Funds. In determining whether Northern Trust is the primary beneficiary of the Funds, Northern Trust used an expected loss calculation based on the characteristics of the underlying investments in the Funds to estimate the expected losses related to interest rate and credit risk, and also considered the relative rights and obligations of each of the applicable variable interest holders. Upon consideration of this analysis, Northern Trust determined that it is not the primary beneficiary of the Funds, as interest rate risk was determined to be the primary driver of expected losses within such funds. Similarly, based on its analysis, including consideration of the contributions noted above, Northern Trust has also determined that it is not the primary beneficiary of any other investment funds for which it serves as asset manager under GAAP. Accordingly, Northern Trust is not required to consolidate the Funds or any other investment funds for which it serves as asset manager within its consolidated balance sheets. Any potential future support of the Funds will be at the discretion of Northern Trust after an evaluation of the specific facts and circumstances and with careful consideration as to the potential impact on Northern Trust's regulatory capital levels and other operational needs. As of December 31, 2015, Northern Trust has no exposure to loss from its implicit interest in such Funds as there are no current plans to provide any further support to the Funds.

## Note 29 – Pledged and Restricted Assets

Certain of Northern Trust's subsidiaries, as required or permitted by law, pledge assets to secure public and trust deposits; repurchase agreements; Federal Home Loan Bank borrowings; and for other purposes, including support for securities settlement, primarily related to client activities, and for potential Federal Reserve Bank discount window borrowings. On December 31, 2015, securities and loans totaling \$35.8 billion (\$27.1 billion of government sponsored agency and other securities, \$117.5 million of obligations of states and political subdivisions, and \$8.6 billion of loans), were pledged. Collateral required for these purposes totaled \$8.9 billion. Included in the total pledged assets are available for sale securities with a total fair value of \$1.5 billion which were pledged as collateral for agreements to repurchase securities sold transactions. The secured parties to these transactions have the right to repledge or sell these securities.

Northern Trust is not permitted, by contract or custom, to repledge or sell collateral from agreements to resell securities purchased transactions. The total fair value of accepted collateral as of December 31, 2015 was \$1.5 billion. There was no repledged or sold collateral as of December 31, 2015.

Deposits maintained to meet Federal Reserve Bank reserve requirements averaged \$1.7 billion in 2015.

## Note 30 – Restrictions on Subsidiary Dividends and Loans or Advances

Various federal and state statutory provisions limit the amount of dividends the Bank can pay to the Corporation without regulatory approval. Approval of the Federal Reserve Board is required for payment of any dividend by a state-chartered bank that is a member of the Federal Reserve System if the total of all dividends declared by the bank in any calendar year would exceed the total of its retained net income (as defined by regulatory agencies) for that year combined with its retained net income for the preceding two years. In addition, a state member bank may not pay a dividend in an amount greater than its “undivided profits,” as defined, without regulatory and stockholder approval. Under Illinois law, an Illinois state bank, prior to paying a dividend, must carry over to surplus at least one-tenth of its net profits since the date of the declaration of the last preceding dividend, until the bank’s surplus is equal to its capital. In addition, an Illinois state bank may not pay any dividend in an amount greater than its net profits then on hand, after deduction of losses and bad debts (defined as debts due to a state bank on which interest is past due and unpaid for a period of six months or more, unless the same are well secured and in the process of collection).

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank is also prohibited under federal law from paying any dividends if the Bank is undercapitalized or if the payment of the dividends would cause the Bank to become undercapitalized. In addition, the federal regulatory agencies are authorized to prohibit a bank or bank holding company from engaging in an unsafe or unsound banking practice. The payment of dividends could, depending on the financial condition of the Bank, be deemed to constitute an unsafe or unsound practice. The Dodd-Frank Wall Street Reform and Consumer Protection Act and Basel III impose additional restrictions on the ability of banking institutions to pay dividends (e.g., the Corporation must include proposed dividends in the capital plan that it submits to the Federal Reserve Board in connection with the CCAR exercise and such dividends may only be declared if the Federal Reserve Board does not object to the Corporation's capital plan).

Under federal law, financial transactions by the Bank, the Corporation's insured banking subsidiary, with the Corporation and its affiliates that are in the form of loans or extensions of credit, investments, guarantees, derivative transactions, repurchase agreements, securities lending transactions or purchases of assets, are restricted. Transfers of this kind to the Corporation or a nonbanking subsidiary by the Bank are limited to 10% of the Bank's capital and surplus with respect to any single affiliate, and to 20% of the Bank's capital and surplus with all affiliates in the aggregate, and are also subject to certain collateral requirements (in the case of credit transactions) and other restrictions on covered transactions. These transactions, as well as other transactions between the Bank and the Corporation or its affiliates, also must be on terms substantially the same as, or at least as favorable as, those prevailing at the time for comparable transactions with non-affiliated companies or, in the absence of comparable transactions, on terms, or under circumstances, including credit standards, that would be offered to, or would apply to, non-affiliated companies. Other state and federal laws may limit the transfer of funds by the Corporation's banking subsidiaries to the Corporation and certain of its affiliates.

## Note 31 – Reporting Segments and Related Information

Segment Information. 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 Corporation's and the Bank's wholesale funding activities and investment portfolios, 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 tables below.

C&IS and Wealth Management results are presented to promote a greater understanding of their financial performance. The information, presented on an internal management-reporting basis as opposed to GAAP which is used for consolidated financial reporting purposes, derives from internal accounting systems that support Northern Trust's strategic objectives and management structure. The accounting policies used for management reporting are consistent with those described in Note 1, "Summary of Significant Accounting Policies."

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables show the earnings contribution of Northern Trust's reporting segments for the years ended December 31, 2015, 2014, and 2013.

TABLE 120: CORPORATE AND INSTITUTIONAL SERVICES RESULTS OF OPERATIONS

(In Millions)	FOR THE YEAR ENDED			
	DECEMBER 31,			
	2015	2014	2013	
<b>NONINTEREST INCOME</b>				
Trust, Investment and Other Servicing Fees	\$1,696.9	\$1,584.0	\$1,443.8	
Foreign Exchange Trading Income	249.4	200.4	238.8	
Other Noninterest Income	170.5	177.9	177.3	
Net Interest Income (Note)	414.4	310.0	275.9	
Revenue (Note)	2,531.2	2,272.3	2,135.8	
Provision for Credit Losses	(22.6	) 5.8	(3.4	)
Noninterest Expense	1,856.4	1,732.8	1,657.9	
Income before Income Taxes (Note)	697.4	533.7	481.3	
Provision for Income Taxes (Note)	212.8	149.4	145.6	
Net Income	\$484.6	\$384.3	\$335.7	
Percentage of Consolidated Net Income	50	%47	%46	%
Average Assets	\$42,313.9	\$59,462.9	\$53,308.2	

Note: Stated on an FTE basis.

TABLE 121: WEALTH MANAGEMENT RESULTS OF OPERATIONS

(In Millions)	FOR THE YEAR ENDED			
	DECEMBER 31,			
	2015	2014	2013	
<b>NONINTEREST INCOME</b>				
Trust, Investment and Other Servicing Fees	\$1,283.6	\$1,248.8	\$1,166.0	
Foreign Exchange Trading Income	12.4	9.7	5.6	
Other Noninterest Income	111.8	98.3	116.7	
Net Interest Income (Note)	568.1	536.1	557.7	
Revenue (Note)	1,975.9	1,892.9	1,846.0	
Provision for Credit Losses	(20.4	) 0.2	23.4	
Noninterest Expense	1,291.9	1,268.7	1,215.0	
Income before Income Taxes (Note)	704.4	624.0	607.6	
Provision for Income Taxes (Note)	264.7	234.8	229.2	
Net Income	\$439.7	\$389.2	\$378.4	
Percentage of Consolidated Net Income	45	%48	%52	%

Explanation of Responses:



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Average Assets	\$25,048.7	\$23,629.3	\$22,887.6
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Note: Stated on an FTE basis.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TABLE 122: TREASURY AND OTHER RESULTS OF OPERATIONS

(In Millions)	FOR THE YEAR ENDED			
	DECEMBER 31,			
	2015	2014	2013	
Noninterest Income	\$107.9	\$6.6	\$8.0	
Net Interest Income (Note)	112.9	188.8	132.0	
Revenue (Note)	220.8	195.4	140.0	
Noninterest Expense	132.3	133.5	120.9	
Income before Income Taxes (Note)	88.5	61.9	19.1	
Provision for Income Taxes (Note)	39.0	23.6	1.9	
Net Income	\$49.5	\$38.3	\$17.2	
Percentage of Consolidated Net Income	5	%5	%2	%
Average Assets	\$43,352.5	\$20,991.3	\$18,661.9	

Note: Stated on an FTE basis.

TABLE 123: CONSOLIDATED FINANCIAL INFORMATION

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
<b>NONINTEREST INCOME</b>			
Trust, Investment and Other Servicing Fees	\$2,980.5	\$2,832.8	\$2,609.8
Foreign Exchange Trading Income	261.8	210.1	244.4
Other Noninterest Income	390.2	282.8	302.0
Net Interest Income (Note)	1,095.4	1,034.9	965.6
Revenue (Note)	4,727.9	4,360.6	4,121.8
Provision for Credit Losses	(43.0)	)6.0	20.0
Noninterest Expense	3,280.6	3,135.0	2,993.8
Income before Income Taxes (Note)	1,490.3	1,219.6	1,108.0
Provision for Income Taxes (Note)	516.5	407.8	376.7
Net Income	\$973.8	\$811.8	\$731.3
Average Assets	\$110,715.1	\$104,083.5	\$94,857.7

Note: Stated on an FTE basis. The consolidated figures include \$25.3 million, \$29.4 million, and \$32.5 million, of FTE adjustments for 2015, 2014, and 2013, respectively.

In 2015, the presentation of certain assets was changed from C&IS to Treasury and Other to reflect better the internal management responsibility for these assets. In addition to the transfer of assets, the Corporation's internal funds pricing treatment of deposits that fund the transferred assets were updated to reflect the economics of these deposits. Further

discussion of reporting segment results is provided within the “Reporting Segments and Related Information” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Geographic Area Information. Northern Trust’s non-U.S. activities are primarily related to its asset servicing, asset management, foreign exchange, cash management, and commercial banking businesses. The operations of Northern Trust are managed on a reporting segment basis and include components of both U.S and non-U.S. source income and assets. Non-U.S. source income and assets are not separately identified in Northern Trust’s internal management reporting system. However, Northern Trust is required to disclose non-U.S. activities based on the domicile of the customer. Due to the complex and integrated nature of Northern Trust’s activities, it is difficult to segregate with precision revenues, expenses and assets between U.S. and non-U.S.-domiciled customers. Therefore, certain subjective estimates and assumptions have been made to allocate revenues, expenses and assets between U.S. and non-U.S. operations.

For purposes of this disclosure, all foreign exchange trading income has been allocated to non-U.S. operations. Interest expense is allocated to non-U.S. operations based on specifically matched or pooled funding. Allocations of indirect noninterest expenses related to non-U.S. activities are not significant, but when made, are based on various methods such as time, space, and number of employees.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below summarizes Northern Trust's performance based on the allocation process described above without regard to guarantors or the location of collateral.

TABLE 124: DISTRIBUTION OF TOTAL ASSETS AND OPERATING PERFORMANCE

(In Millions)	TOTAL ASSETS	TOTAL REVENUE	INCOME BEFORE INCOME TAXES	NET INCOME
2015				
Non-U.S.	\$30,636.5	\$1,358.4	\$ 483.2	\$344.4
U.S.	86,113.1	3,344.2	981.8	629.4
Total	\$ 116,749.6	\$4,702.6	\$ 1,465.0	\$973.8
2014				
Non-U.S.	\$28,326.1	\$1,341.8	\$ 446.5	\$322.7
U.S.	81,620.4	2,989.4	743.7	489.1
Total	\$ 109,946.5	\$4,331.2	\$ 1,190.2	\$811.8
2013				
Non-U.S.	\$30,241.3	\$1,101.0	\$ 272.4	\$201.3
U.S.	72,706.0	2,988.3	803.1	530.0
Total	\$ 102,947.3	\$4,089.3	\$ 1,075.5	\$731.3

Note: Total revenue is comprised of net interest income and noninterest income.

## Note 32 – Regulatory Capital Requirements

Northern Trust and the Bank are subject to various regulatory capital requirements administered by the federal bank regulatory authorities. Under these requirements, banks must maintain specific ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to adjusted average quarterly assets in order to be classified as “well-capitalized.” The regulatory capital requirements impose certain restrictions upon banks that meet minimum capital requirements but are not “well-capitalized” and obligate the federal bank regulatory authorities to take “prompt corrective action” with respect to banks that do not maintain such minimum ratios. Such prompt corrective action could have a direct material effect on a bank's financial statements.

As of December 31, 2015 and 2014, the Bank had capital ratios above the levels required for classification as a “well-capitalized” institution and had not received any regulatory notification of a lower classification. Additionally, Northern Trust's subsidiary banks located outside the U.S. are subject to regulatory capital requirements in the jurisdictions in which they operate. As of December 31, 2015 and 2014, Northern Trust's non-U.S. banking subsidiaries had capital ratios above their specified minimum requirements. There were no conditions or events since December 31, 2015, that management believes have adversely affected the capital categorization of any Northern Trust subsidiary bank.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

TABLE 125: RISK-BASED CAPITAL AMOUNTS AND RATIOS

(\$ In Millions)	December 31, 2015				December 31, 2014				
	ADVANCED APPROACH		STANDARDIZED APPROACH <sup>(1)</sup>		ADVANCED APPROACH		STANDARDIZED APPROACH <sup>(1)</sup>		
	BALANCE	RATIO	BALANCE	RATIO	BALANCE	RATIO	BALANCE	RATIO	
<b>Common Equity Tier 1</b>									
Northern Trust Corporation	\$8,012.6	11.9	%\$8,012.6	10.8	%\$7,813.3	12.4	%\$7,813.3	12.5	%
The Northern Trust Company	7,591.7	11.6	7,591.7	10.4	7,327.3	12.0	7,327.3	11.8	
Minimum to qualify as well-capitalized									
Northern Trust Corporation	4,376.7	6.5	4,807.6	6.5	N/A	N/A	N/A	N/A	
The Northern Trust Company	4,245.5	6.5	4,755.9	6.5	N/A	N/A	N/A	N/A	
<b>Tier 1</b>									
Northern Trust Corporation	8,431.3	12.5	8,431.3	11.4	8,318.0	13.2	8,317.6	13.3	
The Northern Trust Company	7,591.7	11.6	7,591.7	10.4	7,327.3	12.0	7,327.3	11.8	
Minimum to qualify as well-capitalized:									
Northern Trust Corporation	5,386.8	8.0	5,917.0	8.0	3,773.8	6.0	3,759.1	6.0	
The Northern Trust Company	5,225.2	8.0	5,853.4	8.0	3,665.8	6.0	3,738.0	6.0	
<b>Total</b>									
Northern Trust Corporation	9,529.7	14.2	9,767.7	13.2	9,449.2	15.0	9,723.0	15.5	
The Northern Trust Company	8,538.1	13.1	8,771.4	12.0	8,420.4	13.8	8,695.1	14.0	
Minimum to qualify as well-capitalized:									
Northern Trust Corporation	6,733.5	10.0	7,396.3	10.0	6,289.7	10.0	6,265.1	10.0	
The Northern Trust Company	6,531.5	10.0	7,316.8	10.0	6,109.7	10.0	6,229.9	10.0	
<b>Tier 1 Leverage</b>									
Northern Trust Corporation	8,431.3	7.5	8,431.3	7.5	N/A	N/A	8,317.6	7.8	
The Northern Trust Company	7,591.7	6.7	7,591.7	6.7	N/A	N/A	7,327.3	6.9	
Minimum to qualify as well-capitalized:									
Northern Trust Corporation	5,655.0	5.0	5,655.0	5.0	N/A	N/A	5,340.7	5.0	
The Northern Trust Company	5,639.0	5.0	5,639.0	5.0	N/A	N/A	5,324.9	5.0	
<b>Supplementary Leverage<sup>(2)</sup></b>									
Northern Trust Corporation	8,431.3	6.2	N/A	N/A	N/A	N/A	N/A	N/A	
The Northern Trust Company	7,591.7	5.6	N/A	N/A	N/A	N/A	N/A	N/A	
Minimum to qualify as well-capitalized:									
Northern Trust Corporation	4,085.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
The Northern Trust Company	4,075.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

(1) 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.

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

As of January 1, 2015, the risk-based capital guidelines that apply to the Corporation and the Bank, commonly referred to as Basel III, are based upon the 2011 capital accord of the Basel Committee. The Basel III rules are currently being phased in, and will come into full effect by January 1, 2022.

Under the final Basel III rules, the Corporation is one of a small number of “core” banking organizations. The rules require core banking organizations to have rigorous processes for assessing overall capital adequacy in relation to their total risk profiles, and to publicly disclose certain information about their risk profiles and capital adequacy. In order to implement the capital rules, a core banking organization, such as the Corporation, is required to satisfactorily complete a parallel run, in which it calculates capital requirements under both the Basel III rules and previously effective regulations. On February 21, 2014, the Corporation was notified by the Federal Reserve Board that both the Corporation and the Bank would be permitted to exit parallel run. Accordingly, the Corporation and the Bank were required to use the advanced approaches methodologies to calculate and publicly disclose their risk-based capital ratios beginning with the second

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quarter of 2014. The parallel run of the risk-based capital framework demonstrated that the use of the advanced approaches methodologies, inclusive of commitments the Corporation provided to the Federal Reserve Board regarding the Corporation's approach to the calculation of risk-weighted assets, did not result in the Tier 1 or total risk-based capital ratios falling below the levels required for categorization as "well-capitalized."

The U.S.'s implementation of Basel III has increased the minimum capital thresholds for banking organizations and tightened the standards for what qualifies as capital. The Corporation and the Bank believe their capital strength, balance sheets and business models leave them well positioned for the continued U.S. implementation of Basel III.

## Note 33 – Northern Trust Corporation (Corporation only)

Condensed financial information is presented below. Investments in wholly-owned subsidiaries are carried on the equity method of accounting.

TABLE 126: CONDENSED BALANCE SHEETS

	31, 2015	DECEMBER 2014
(In Millions)		
<b>ASSETS</b>		
Cash on Deposit with Subsidiary Bank	\$757.5	\$869.4
Securities	1.2	2.3
Advances to Wholly-Owned Subsidiaries – Banks	2,260.0	2,273.5
– Nonbank	18.5	5.0
Investments in Wholly-Owned Subsidiaries – Banks	7,927.8	7,604.5
– Nonbank	153.4	123.0
Other Assets	682.3	605.8
Total Assets	\$11,800.7	\$11,483.5
<b>LIABILITIES</b>		
Senior Notes	\$1,497.4	\$1,497.0
Long Term Debt	800.3	793.0
Floating Rate Capital Debt	277.3	277.2
Other Liabilities	519.8	467.4
Total Liabilities	3,094.8	3,034.6
<b>STOCKHOLDERS' EQUITY</b>		
Preferred Stock	388.5	388.5
Common Stock	408.6	408.6
Additional Paid-in Capital	1,072.3	1,050.9
Retained Earnings	8,242.8	7,625.4
Accumulated Other Comprehensive Loss	(372.7)	(319.7)
Treasury Stock	(1,033.6)	(704.8)
Total Stockholders' Equity	8,705.9	8,448.9
Total Liabilities and Stockholders' Equity	\$11,800.7	\$11,483.5



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TABLE 127: CONDENSED STATEMENTS OF INCOME

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31,		
	2015	2014	2013
<b>OPERATING INCOME</b>			
Dividends – Bank Subsidiaries	\$600.0	\$300.0	\$880.0
– Nonbank Subsidiaries	8.7	3.8	21.7
Intercompany Interest and Other Charges	38.5	42.9	33.2
Interest and Other Income	5.4	(0.3	)9.0
Total Operating Income	652.6	346.4	943.9
<b>OPERATING EXPENSES</b>			
Interest Expense	59.3	66.6	78.3
Other Operating Expenses	56.8	17.0	20.8
Total Operating Expenses	116.1	83.6	99.1
Income before Income Taxes and Equity in Undistributed Net Income of Subsidiaries	536.5	262.8	844.8
Benefit for Income Taxes	29.0	16.6	24.2
Income before Equity in Undistributed Net Income of Subsidiaries	565.5	279.4	869.0
Equity in Undistributed Net Income of Subsidiaries – Banks	392.8	522.1	(152.5
– Nonbank	15.5	10.3	14.8
Net Income	\$973.8	\$811.8	\$731.3
Preferred Stock Dividends	23.4	9.5	—
Net Income Applicable to Common Stock	\$950.4	\$802.3	\$731.3

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TABLE 128: CONDENSED STATEMENTS OF CASH FLOWS

(In Millions)	FOR THE YEAR ENDED		
	DECEMBER 31, 2015	2014	2013
<b>OPERATING ACTIVITIES:</b>			
Net Income	\$973.8	\$811.8	\$731.3
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:			
Equity in Undistributed Net Income of Subsidiaries	(408.3	) (532.4	) 131.0
Change in Prepaid Expenses	1.2	0.2	(1.1 )
Change in Accrued Income Taxes	22.8	(30.7	) (18.1 )
Other, net	58.4	56.1	102.6
Net Cash Provided by Operating Activities	647.9	305.0	945.7
<b>INVESTING ACTIVITIES:</b>			
Change in Time Deposits with Banks	—	—	1,691.4
Purchases of Securities – Available for Sale	—	—	—
Proceeds from Sale, Maturity and Redemption of Securities – Available for Sale	1.3	2.9	0.2
Change in Capital Investments in Subsidiaries	(10.0	) —	(13.0 )
Advances to Wholly-Owned Subsidiaries	—	(238.5	) (1,000.0 )
Other, net	0.2	1.1	1.8
Net Cash Provided by (Used in) Investing Activities	(8.5	) (234.5	) 680.4
<b>FINANCING ACTIVITIES:</b>			
Change in Senior Notes and Long-Term Debt	—	(500.0	) 317.9
Proceeds from Issuance of Preferred Stock – Series C	—	388.5	—
Treasury Stock Purchased	(496.9	) (480.7	) (309.7 )
Net Proceeds from Stock Options	94.0	127.5	146.2
Cash Dividends Paid on Common Stock	(321.4	) (302.9	) (220.6 )
Cash Dividends Paid on Preferred Stock	(27.0	) —	—
Other, net	—	0.1	—
Net Cash Used in Financing Activities	(751.3	) (767.5	) (66.2 )
Net Change in Cash on Deposit with Subsidiary Bank	(111.9	) (697.0	) 1,559.9
Cash on Deposit with Subsidiary Bank at Beginning of Year	869.4	1,566.4	6.5
Cash on Deposit with Subsidiary Bank at End of Year	\$757.5	\$869.4	\$1,566.4

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## SUPPLEMENTAL ITEM – SELECTED STATISTICAL AND SUPPLEMENTAL FINANCIAL DATA

TABLE 129: QUARTERLY FINANCIAL DATA (UNAUDITED)

STATEMENTS OF INCOME	2015				2014			
(\$ In Millions Except Per Share Information)	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
Trust, Investment and Other Servicing Fees	\$747.1	\$749.1	\$756.8	\$727.5	\$728.2	\$718.2	\$706.9	\$679.5
Other Noninterest Income	120.2	137.5	247.9	146.4	138.0	111.4	128.2	115.3
Net Interest Income								
Interest Income	330.7	305.7	288.8	298.8	303.9	293.8	293.8	295.4
Interest Expense	41.3	36.8	37.6	38.2	40.0	44.5	47.2	49.7
Net Interest Income	289.4	268.9	251.2	260.6	263.9	249.3	246.6	245.7
Provision for Credit Losses	(18.5 )	(10.0 )	(10.0 )	(4.5 )	3.0	—	—	3.0
Noninterest Expense	824.8	812.3	854.5	789.0	781.3	774.7	811.0	768.0
Provision for Income Taxes	111.1	118.6	142.2	119.3	101.8	99.7	88.8	88.1
Net Income	\$239.3	\$234.6	\$269.2	\$230.7	\$244.0	\$204.5	\$181.9	\$181.4
Preferred Stock Dividends	5.9	5.8	5.8	5.9	9.5	—	—	—
Net Income Applicable to Common Stock	\$233.4	\$228.8	\$263.4	\$224.8	\$234.5	\$204.5	\$181.9	\$181.4
PER COMMON SHARE								
Net Income – Basic	\$1.00	\$0.97	\$1.11	\$0.95	\$0.98	\$0.85	\$0.76	\$0.75
– Diluted	0.99	0.96	1.10	0.94	0.98	0.84	0.75	0.75
AVERAGE BALANCE SHEET ASSETS								
Cash and Due from Banks	\$2,142.7	\$2,683.5	\$2,142.9	\$1,573.4	\$1,217.4	\$2,783.0	\$2,838.4	\$2,806.0
Federal Funds Sold and Securities Purchased under Agreements to Resell	1,490.3	1,080.4	1,041.9	1,033.7	1,045.8	923.1	554.1	530.3
Interest-Bearing Due from and Deposits with Banks <sup>(1)</sup>	14,709.6	15,828.1	16,920.6	15,263.1	16,458.7	16,288.3	17,294.6	17,062.0
Federal Reserve Deposits	17,708.1	12,721.3	14,992.1	14,504.0	17,020.9	15,914.3	13,266.4	12,702.0
Securities <sup>(2)</sup>	37,838.5	38,041.1	37,930.0	35,792.5	33,511.7	33,585.4	34,304.7	32,368.0
Loans and Leases	33,884.0	33,138.3	32,921.4	32,099.8	31,351.4	30,256.4	30,052.9	29,177.0

Explanation of Responses:

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Allowance for Credit Losses Assigned to Loans and Leases	(242.0 )	(256.0 )	(260.0 )	(265.9 )	(267.1 )	(273.4 )	(276.8 )	(277.8 )
Other Assets	6,141.9	6,687.4	6,002.2	7,512.6	7,091.2	5,767.6	5,289.8	5,874.0
Total Assets	\$113,673.1	\$109,924.1	\$111,691.1	\$107,513.2	\$107,430.0	\$105,244.7	\$103,324.1	\$100,244.1
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
<b>Deposits</b>								
Demand and Other Noninterest-Bearing Savings and Money Market	\$26,009.2	\$24,263.7	\$25,558.4	\$22,023.6	\$21,732.7	\$20,069.8	\$18,832.3	\$17,642.1
Savings Certificates and Other Time	14,998.5	15,168.4	15,705.4	15,361.0	15,051.2	15,019.0	14,828.6	14,713.5
Non-U.S. Offices – Interest-Bearing	1,436.2	1,487.0	1,779.5	1,741.7	1,829.3	1,902.9	1,996.2	1,825.5
Total Deposits	50,664.5	50,107.9	49,291.8	47,399.8	48,817.9	48,725.5	48,988.1	46,566.6
Short-Term Borrowings	93,108.4	91,027.0	92,335.1	86,526.1	87,431.1	85,717.2	84,645.2	80,747.1
Senior Notes	5,566.3	3,878.5	4,404.8	5,187.4	4,364.4	4,860.3	4,217.8	4,552.0
Long-Term Debt	1,497.3	1,497.2	1,497.1	1,497.0	1,496.9	1,496.8	1,661.6	1,996.6
Floating Rate Capital Debt	1,382.0	1,374.3	1,380.2	1,571.9	1,613.4	1,636.5	1,642.4	1,728.9
Other Liabilities	277.3	277.3	277.3	277.2	277.2	277.2	277.2	277.1
Stockholders' Equity	3,138.3	3,159.3	3,188.7	3,980.9	3,747.8	2,971.2	2,932.7	3,014.7
Total Liabilities and Stockholders' Equity	8,703.5	8,710.5	8,607.9	8,472.7	8,499.2	8,285.5	7,947.2	7,926.4
<b>ANALYSIS OF NET INTEREST INCOME</b>								
Earning Assets	\$105,630.5	\$100,809.2	\$103,806.0	\$98,693.1	\$99,388.5	\$96,967.5	\$95,472.7	\$91,840.1
Interest-Related Funds	75,822.1	73,790.6	74,336.1	73,036.0	73,450.3	73,918.2	73,611.9	71,660.1
Noninterest-Related Funds	\$29,808.4	\$27,018.6	\$29,469.9	\$25,657.1	\$25,938.2	\$23,049.3	\$21,860.8	\$20,180.0
Net Interest Income (Fully Taxable Equivalent)	296.0	275.0	257.6	266.8	270.9	256.2	253.4	254.4
Net Interest Margin (Fully Taxable Equivalent)	1.11	% 1.08	% 1.00	% 1.10	% 1.08	% 1.05	% 1.06	% 1.12
<b>COMMON STOCK DIVIDEND AND MARKET PRICE</b>								
Dividends-Common Stock	\$0.36	\$0.36	\$0.36	\$0.33	\$0.33	\$0.33	\$0.33	\$0.31
Market Price Range – High	76.11	79.25	78.88	72.72	69.15	70.84	65.98	67.17
– Low	64.77	65.17	68.88	61.10	60.78	63.11	58.30	58.31

Explanation of Responses:

(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) Securities include Federal Reserve and Federal Home Loan Bank stock and certain community development investments which are classified in other assets in the consolidated balance sheets as of December 31, 2014, and 2013.  
Note: The common stock of the Corporation is traded on The NASDAQ Stock Market LLC under the symbol "NTRS".

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## TABLE 130: AVERAGE CONSOLIDATED BALANCE SHEETS WITH ANALYSIS OF NET INTEREST INCOME

(INTEREST AND RATE ON A FULLY TAXABLE EQUIVALENT BASIS)

(\$ In Millions)	2015			2014			2013			
	INTEREST	AVERAGE BALANCE	RATE <sup>(4)</sup>	INTEREST	AVERAGE BALANCE	RATE <sup>(4)</sup>	INTEREST	AVERAGE BALANCE	RATE <sup>(4)</sup>	
AVERAGE EARNING ASSETS										
Federal Funds Sold and Resell Agreements	\$6.3	\$1,162.6	0.54	%\$3.5	\$765.2	0.45	%\$1.9	\$415.5	0.46	%
Interest-Bearing Due from and Deposits with Banks <sup>(1)</sup>	108.3	15,679.2	0.69	127.6	16,783.6	0.76	142.1	18,080.7	0.79	
Federal Reserve Deposits	40.5	14,984.0	0.27	37.8	14,737.2	0.26	19.6	7,615.7	0.26	
Securities										
U.S. Government Obligations of States and Political Subdivisions	56.0	4,985.5	1.12	31.2	2,892.7	1.08	18.3	1,625.8	1.12	
Government Sponsored Agency Other <sup>(2)</sup>	7.4	113.2	6.58	11.1	165.8	6.69	18.0	281.0	6.40	
Total Securities	154.8	16,458.8	0.94	148.9	17,514.8	0.85	141.2	17,548.8	0.80	
	137.9	15,850.4	0.87	114.3	12,872.6	0.89	97.5	11,364.3	0.86	
Total Earning Assets	356.1	37,407.9	0.95	305.5	33,445.9	0.91	275.0	30,819.9	0.89	
Loans and Leases <sup>(3)</sup>	738.1	33,016.1	2.24	741.9	30,215.6	2.46	749.4	28,696.5	2.61	
Total Earning Assets	1,249.3	102,249.8	1.22	1,216.3	95,947.5	1.27	1,188.085	628.3	1.39	
Allowance for Credit Losses Assigned to Loans and Leases										
Cash and Due from Banks	—	(255.9)	)—	—	(273.7)	)—	—	(289.9)	)—	
Buildings and Equipment	—	2,138.7	—	—	2,401.4	—	—	2,950.4	—	
Client Security Settlement Receivables	—	442.5	—	—	448.7	—	—	459.0	—	
Goodwill	—	1,002.2	—	—	865.2	—	—	785.8	—	
Other Assets	—	530.8	—	—	540.2	—	—	533.6	—	
Total Assets	—	4,607.0	—	—	4,154.2	—	—	4,790.5	—	
Total Assets	\$—	\$110,715.1	—	%\$—	\$104,083.5	—	%\$—	\$94,857.7	—	%

## AVERAGE SOURCE OF

Explanation of Responses:

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FUNDS

Deposits

Savings and Money Market	\$9.7	\$15,306.9	0.06	%\$9.9	\$14,904.4	0.07	%\$9.7	\$14,533.4	0.07	%
Savings Certificates and Other Time	7.5	1,609.9	0.47	6.1	1,888.5	0.32	12.4	2,102.0	0.59	
Non-U.S. Offices – Interest-Bearing	57.1	49,377.1	0.12	65.7	48,281.9	0.14	81.2	42,338.3	0.19	

Total

Interest-Bearing Deposits	74.3	66,293.9	0.11	81.7	65,074.8	0.13	103.3	58,973.7	0.18	
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Deposits

Short-Term Borrowings	6.0	4,757.9	0.13	5.1	4,499.1	0.11	5.2	4,654.7	0.11	
Senior Notes	46.8	1,497.2	3.13	54.7	1,661.2	3.29	74.4	2,247.0	3.31	
Long-Term Debt	24.4	1,426.4	1.71	37.7	1,654.9	2.28	37.1	1,211.7	3.06	
Floating Rate Capital Debt	2.4	277.3	0.86	2.2	277.2	0.81	2.4	277.1	0.85	

Total

Interest-Related Funds	153.9	74,252.7	0.21	181.4	73,167.2	0.25	222.4	67,364.2	0.33	
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Interest Rate Spread

Demand and Other	—	—	1.01	—	—	1.02	—	—	1.06	
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Noninterest-Bearing

Deposits	—	24,474.1	—	—	19,581.8	—	—	16,622.6	—	
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Deposits

Other Liabilities	—	3,363.8	—	—	3,168.0	—	—	3,203.9	—	
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Stockholders' Equity	—	8,624.5	—	—	8,166.5	—	—	7,667.0	—	
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Total Liabilities and

Stockholders' Equity	\$—	\$110,715.1	—	%\$—	\$104,083.5	—	%\$—	\$94,857.7	—	%
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Net Interest

Income/Margin (FTE Adjusted)	\$1,095.4	\$—	1.07	%\$1,034.9	\$—	1.08	%\$965.6	\$—	1.13	%
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Net Interest

Income/Margin (Unadjusted)	\$1,070.1	\$—	1.05	%\$1,005.5	\$—	1.05	%\$933.1	\$—	1.09	%
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Net Interest

Income/Margin

Components (FTE

Adjusted)

U.S.	\$842.5	\$78,136.5	1.08	%\$843.1	\$71,803.1	1.17	%\$814.9	\$61,223.6	1.33	%
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Non-U.S.	252.9	24,113.3	1.05	191.8	24,144.4	0.79	150.7	24,404.7	0.62	
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Consolidated

	\$1,095.4	\$102,249.8	1.07	%\$1,034.9	\$95,947.5	1.08	%\$965.6	\$85,628.3	1.13	%
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(1) Interest-Bearing Due from and Deposits with Banks includes interest-bearing component of Cash and Due from Banks and Interest-Bearing Deposits with Banks as presented on the consolidated balance sheets in our periodic filings with the SEC.

(2) Other securities include Federal Reserve and Federal Home Loan Bank stock and certain community development investments for purposes of presenting earning assets; such securities are presented in other assets on the consolidated balance sheets in our periodic filings with the SEC.

(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.

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%. Total taxable equivalent interest adjustments amounted to \$25.3 million in 2015, \$29.4 million in 2014 and \$32.5 million in 2013.

Notes: 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.



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TABLE 131: CHANGES IN NET INTEREST INCOME

(INTEREST AND RATE ON A FULLY TAXABLE EQUIVALENT BASIS)

(In Millions)	2015/2014 CHANGE DUE TO			2014/2013 CHANGE DUE TO		
	AVERAGE BALANCE	RATE	TOTAL	AVERAGE BALANCE	RATE	TOTAL
Increase (Decrease) in Interest Income						
Money Market Assets						
Federal Funds Sold and Resell Agreements	\$1.8	\$0.7	\$2.5	\$1.6	\$—	\$1.6
Time Deposits with Banks	(8.5)	(11.6)	(20.1)	(10.2)	(4.3)	(14.5)
Other Interest-Bearing Securities	0.6	1.5	2.1	18.5	(0.3)	18.2
U.S. Government Obligations of States and Political Subdivisions						
U.S. Government	22.8	1.2	24.0	14.2	(1.3)	12.9
Obligations of States and Political Subdivisions	(3.5)	(0.2)	(3.7)	(7.4)	0.5	(6.9)
Government Sponsored Agency	(9.1)	15.7	6.6	(0.3)	8.0	7.7
Other	26.7	(2.6)	24.1	13.0	3.8	16.8
Loans and Leases	49.8	(52.3)	(2.5)	114.0	(121.5)	(7.5)
Total	\$80.6	\$(47.6)	\$(33.0)	\$143.4	\$(115.1)	\$(28.3)
Increase (Decrease) in Interest Expense						
Deposits						
Savings and Money Market	\$0.3	\$(1.5)	\$(1.2)	\$0.3	\$(0.1)	\$(0.2)
Savings Certificates and Other Time	(0.9)	2.9	2.0	(1.3)	(5.0)	(6.3)
Non-U.S. Offices Time	1.4	(10.0)	(8.6)	11.3	(26.8)	(15.5)
Short-Term Borrowings	0.3	0.9	1.2	(0.2)	0.1	(0.1)
Senior Notes	(5.2)	(2.8)	(8.0)	(19.4)	(0.3)	(19.7)
Subordinated Notes						
Long-Term Debt	6.7	(19.7)	(13.0)	28.4	(27.8)	0.6
Floating Rate Capital Debt	—	0.1	0.1	—	(0.2)	(0.2)
Total	\$2.6	\$(30.1)	\$(27.5)	\$19.1	\$(60.1)	\$(41.0)
Increase (Decrease) in Net Interest Income	\$78.0	\$(17.5)	\$(60.5)	\$124.3	\$(55.0)	\$(69.3)

Note: Changes not due solely to average balance changes or rate changes are allocated proportionately to average balance and rate based on their relative absolute magnitudes.

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## Investment Securities Portfolio

TABLE 132: REMAINING MATURITY AND AVERAGE YIELD OF SECURITIES HELD TO MATURITY AND AVAILABLE FOR SALE

(\$ in Millions)	December 31, 2015								AVERAGE MATURITY
	ONE YEAR OR LESS		ONE TO FIVE YEARS		FIVE TO TEN YEARS		OVER TEN YEARS		
	BOOK	YIELD	BOOK	YIELD	BOOK	YIELD	BOOK	YIELD	
<b>Securities Held to Maturity</b>									
U.S. Government	\$26.0	0.42	%\$—	—	%\$—	—	%\$—	—	%5 mos.
Obligations of States and Political Subdivisions	21.6	4.53	66.1	4.69	1.5	5.47	—	—	26 mos.
Government Sponsored Agency	2.1	3.07	2.2	3.42	1.4	5.06	4.2	5.05	102 mos.
Other – Fixed	1,859.1	0.63	2,174.6	0.80	12.0	2.10	49.3	2.63	21 mos.
– Floating	—	—	1,028.2	2.13	—	—	—	—	34 mos.
<b>Total Securities Held to Maturity</b>	<b>\$1,908.8</b>	<b>0.67</b>	<b>%\$3,271.1</b>	<b>1.30</b>	<b>%\$14.9</b>	<b>2.73</b>	<b>%\$53.5</b>	<b>2.82</b>	<b>%24 mos.</b>
<b>Securities Available for Sale</b>									
U.S. Government	\$1,798.6	0.74	%\$4,279.8	1.30	%\$99.9	1.82	%\$—	—	%29 mos.
Obligations of States and Political Subdivisions	—	—	36.4	1.36	—	—	—	—	36 mos.
Government Sponsored Agency	4,310.6	1.03	7,553.1	0.94	3,341.0	0.94	1,162.1	1.39	48 mos.
Asset-Backed – Fixed	1,018.4	0.85	555.5	1.43	—	—	—	—	13 mos.
Asset-Backed – Floating	492.3	0.68	799.1	0.74	9.2	1.05	—	—	16 mos.
Auction Rate Securities	0.2	0.28	0.6	1.07	0.8	0.51	15.5	1.74	77 mos.
Other – Fixed	1,433.0	1.52	3,353.0	1.46	446.6	1.80	—	—	26 mos.
– Floating	279.5	0.62	1,199.5	0.72	125.6	0.69	7.6	0.86	32 mos.
<b>Total Securities Available for Sale</b>	<b>\$9,332.6</b>	<b>1.00</b>	<b>%\$17,777.0</b>	<b>1.12</b>	<b>%\$4,023.1</b>	<b>1.05</b>	<b>%\$1,185.2</b>	<b>1.39</b>	<b>%37 mos.</b>

Note: Yield is calculated on amortized cost and presented on a taxable equivalent basis giving effect to the applicable federal and state tax rates.

As of December 31, 2015, Northern Trust had no holdings of the securities of any single issuer greater than 10% of stockholders' equity, except for U.S. government, government agencies, government corporations and government-sponsored agencies. See Note 4, "Securities," to the consolidated financial statements provided in Item 8, "Financial Statements and Supplementary Data," for more information on securities.



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## Loans and Leases Portfolio

TABLE 133: REMAINING MATURITY OF SELECTED LOANS AND LEASES

(In Millions)	December 31, 2015			
	TOTAL	ONE YEAR OR LESS	ONE TO FIVE YEARS	OVER FIVE YEARS
U.S. (Excluding Residential Real Estate and Private Client Loans):				
Commercial and Institutional	\$9,431.5	\$6,535.0	\$ 1,681.6	\$ 1,214.9
Commercial Real Estate	3,848.8	569.1	2,085.1	1,194.6
Lease Financing, net	544.4	64.0	177.2	303.2
Other-Commercial	194.1	134.8	34.2	25.1
Other-Personal	37.3	1.6	4.0	31.7
Total U.S.	\$ 14,056.1	\$ 7,304.5	\$ 3,982.1	\$ 2,769.5
Non-U.S.	\$ 1,137.7	\$ 962.2	\$ 161.5	\$ 14.0
Total Selected Loans and Leases	\$ 15,193.8	\$ 8,266.7	\$ 4,143.6	\$ 2,783.5
Interest Rate Sensitivity of Loans and Leases:				
Fixed Rate	\$ 10,169.6	\$ 7,059.8	\$ 1,885.2	\$ 1,224.6
Variable Rate	5,024.2	1,231.4	2,262.5	1,530.3
Total	\$ 15,193.8	\$ 8,291.2	\$ 4,147.7	\$ 2,754.9

TABLE 134: DISTRIBUTION OF NON-U.S. LOANS BY TYPE

(In Millions)	DECEMBER 31,				
	2015	2014	2013	2012	2011
Commercial	\$ 335.2	\$ 154.0	\$ 497.0	\$ 498.0	\$ 335.9
Non-U.S. Governments and Official Institutions	—	—	250.1	252.4	197.8
Banks	8.5	—	10.4	9.9	13.3
Other	794.0	1,376.6	197.2	432.0	510.5
Total	\$ 1,137.7	\$ 1,530.6	\$ 954.7	\$ 1,192.3	\$ 1,057.5

Note: Non-U.S. loans primarily include short duration advances related to the processing of custodied client investments.

TABLE 135: ALLOWANCE FOR CREDIT LOSSES RELATING TO NON-U.S. OPERATIONS

The following table should be read in conjunction with the “Risk Management” section of Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

(In Millions)	2015	2014	2013	2012	2011
Balance at Beginning of Year	\$ 3.3	\$ 2.1	\$ 3.4	\$ 4.7	\$ 3.8
Charge-Offs	—	—	—	—	—
Recoveries	—	—	—	—	—
Provision for Credit Losses	(3.3	) 1.2	(1.3	) (1.3	) 0.9
Balance at End of Year	\$ —	\$ 3.3	\$ 2.1	\$ 3.4	\$ 4.7

Explanation of Responses:

The SEC requires the disclosure of the allowance for credit losses that is applicable to international operations. The above table has been prepared in compliance with this disclosure requirement and is used in determining non-U.S. operating performance. The amounts shown in the table should not be construed as being the only amounts that are available for non-U.S. loan charge-offs, since the entire allowance for credit losses assigned to loans and leases is available to absorb losses on both U.S. and non-U.S. loans. In addition, these amounts are not intended to be indicative of future charge-off trends.

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## Summary of Loans and Leases Loss Experience

TABLE 136: ANALYSIS OF ALLOWANCE FOR CREDIT LOSSES

The following table should be read in conjunction with the “Risk Management” section of Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

(\$ in Millions)	2015	2014	2013	2012	2011
Balance at Beginning of Year	\$295.9	\$307.9	\$327.6	\$328.9	\$357.3
Charge-Offs					
Commercial					
Commercial and Institutional	9.2	5.4	5.0	5.5	22.0
Commercial Real Estate	3.9	7.5	11.7	14.4	34.3
Total Commercial	13.1	12.9	16.7	19.9	56.3
Personal					
Residential Real Estate	16.7	21.2	37.0	40.3	55.0
Private Client	0.9	2.0	5.5	2.8	5.0
Other	—	—	0.1	—	—
Total Personal	17.6	23.2	42.6	43.1	60.0
Total Charge-Offs	30.7	36.1	59.3	63.0	116.3
Recoveries					
Commercial					
Commercial and Institutional	1.7	1.3	3.6	3.1	15.0
Commercial Real Estate	3.8	9.8	5.0	14.5	6.5
Lease Financing, net	—	—	—	2.7	—
Total Commercial	5.5	11.1	8.6	20.3	21.5
Personal					
Residential Real Estate	4.5	5.6	9.4	9.8	7.8
Private Client	1.2	1.4	1.6	6.6	3.6
Total Personal	5.7	7.0	11.0	16.4	11.4
Total Recoveries	11.2	18.1	19.6	36.7	32.9
Net Charge-Offs	19.5	18.0	39.7	26.3	83.4
Provision for Credit Losses	(43.0)	) 6.0	20.0	25.0	55.0
Effect of Foreign Exchange Rates	(0.1)	) —	—	—	—
Net Change in Allowance	(62.6)	) (12.0)	) (19.7)	) (1.3)	) (28.4)
Balance at End of Year	233.3	295.9	307.9	327.6	328.9
Allowance Assigned To:					
Loans and Leases	193.8	267.0	\$278.1	\$297.9	\$294.8

Explanation of Responses:

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Undrawn Commitments and Standby Letters of Credit	39.5	28.9	29.8	29.7	34.1	
Total Allowance for Credit Losses	233.3	295.9	\$307.9	\$327.6	\$328.9	
Loans and Leases at Year-End	33,180.9	31,640.2	\$29,385.5	\$29,504.5	\$29,063.9	
Average Total Loans and Leases	33,016.1	30,215.6	\$28,696.5	\$28,975.7	\$28,346.7	
As a Percent of Year-End Loans and Leases						
Net Loan Charge-Offs	0.06	%0.06	%0.14	%0.09	%0.29	%
Provision for Credit Losses	(0.13	) 0.02	0.07	0.08	0.19	
Allowance at Year-End Assigned to Loans and Leases	0.58	0.84	0.95	1.01	1.01	
As a Percent of Average Loans and Leases						
Net Loan Charge-Offs	0.06	%0.06	%0.14	%0.09	%0.29	%
Allowance at Year-End Assigned to Loans and Leases	0.59	0.88	0.97	1.03	1.04	

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## Deposits

TABLE 137: AVERAGE DEPOSITS BY TYPE

(In Millions)	2015	DECEMBER 31,	
		2014	2013
U.S. Offices			
Demand and Noninterest-Bearing			
Individuals, Partnerships and Corporations	\$20,684.9	\$17,816.4	\$12,816.4
Correspondent Banks	59.8	78.9	71.6
Other Noninterest-Bearing	124.6	111.6	161.7
Total Demand and Noninterest-Bearing	20,869.3	18,006.9	13,049.7
Interest-Bearing			
Savings and Money Market	15,306.9	14,904.4	14,533.4
Savings Certificates less than \$100,000	175.9	209.1	252.5
Savings Certificates \$100,000 and more	669.9	767.6	968.4
Other	764.1	911.8	881.1
Total Interest-Bearing	16,916.8	16,792.9	16,635.4
Total U.S. Offices	37,786.1	34,799.8	29,685.1
Non-U.S. Offices			
Noninterest-Bearing	3,604.8	1,574.9	3,572.9
Interest-Bearing	49,377.1	48,281.9	42,338.3
Total Non-U.S. Offices	52,981.9	49,856.8	45,911.2
Total Deposits	\$90,768.0	\$84,656.6	\$75,596.3

TABLE 138: DISTRIBUTION OF NON-U.S. DEPOSITS BY TYPE

(In Millions)	2015	DECEMBER 31,	
		2014	2013
Commercial	\$50,965.8	\$43,466.6	\$43,638.1
Non-U.S. Governments and Official Institutions	5,464.3	6,094.6	6,370.5
Banks	489.5	678.5	306.0
Other Time	18.2	21.9	26.4
Other Demand	3.9	6.6	2.5
Total	\$56,941.7	\$50,268.2	\$50,343.5

TABLE 139: REMAINING MATURITY OF TIME DEPOSITS \$100,000 OR MORE

(In Millions)	DECEMBER 31, 2015		
	U.S. OFFICES	NON-U.S. OFFICES	
	CERTIFICATES OF DEPOSIT	CERTIFICATES OF DEPOSIT	OTHER TIME
3 Months or Less	\$378.6	\$—	\$ 9,225.8
Over 3 through 6 Months	259.7	—	93.2

Explanation of Responses:



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Over 6 through 12 Months	424.3	—	5.6
Over 12 Months	219.9	—	1.7
Total	\$1,282.5	\$—	\$ 9,326.3

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TABLE 140: AVERAGE RATES PAID ON INTEREST-RELATED DEPOSITS BY TYPE

		DECEMBER 31,		
	2015	2014	2013	
Interest-Related Deposits – U.S. Offices				
Savings and Money Market	0.06	%0.07	%0.07	%
Savings Certificates less than \$100,000	0.19	0.28	0.56	
Savings Certificates \$100,000 and more	0.38	0.46	0.73	
Other Time	0.63	0.25	0.44	
Total U.S. Offices Interest-Related Deposits	0.10	0.10	0.13	
Total Non-U.S. Offices Interest-Related Deposits	0.12	0.14	0.19	
Total Interest-Related Deposits	0.11	%0.13	%0.18	%

Non-U.S. Operations (Based on Obligor's Domicile)

See also Note 31, "Reporting Segments and Related Information," provided in Item 8, "Financial Statements and Supplementary Data."

TABLE 141: SELECTED AVERAGE ASSETS AND LIABILITIES ATTRIBUTABLE TO NON-U.S. OPERATIONS

(In Millions)	2015	2014	2013	2012	2011
Total Assets	\$29,411.2	\$28,072.8	\$29,315.6	\$29,237.4	\$29,201.2
Time Deposits with Banks	13,712.9	16,106.9	17,785.5	18,580.4	16,906.5
Loans	1,759.4	1,490.2	1,164.0	1,091.1	1,301.7
Customers' Acceptance Liability	—	—	0.5	0.7	0.3
Non-U.S. Investments	8,590.8	6,446.5	5,334.1	4,470.4	5,370.2
Total Liabilities	54,521.0	52,123.3	48,144.4	43,436.7	45,757.5
Deposits	52,981.2	49,854.7	45,865.7	41,160.9	43,370.3
Liability on Acceptances	—	—	0.5	0.7	0.3

TABLE 142: PERCENT OF NON-U.S.-RELATED AVERAGE ASSETS AND LIABILITIES TO TOTAL CONSOLIDATED AVERAGE ASSETS

	2015	2014	2013	2012	2011	
Assets	27	%27	%31	%31	%32	%
Liabilities	49	%50	%51	%47	%50	%

## NON-U.S. OUTSTANDINGS

As used in this discussion and the following table, non-U.S. outstandings are cross-border outstandings as defined by the SEC. They consist of loans, acceptances, interest-bearing deposits with financial institutions, accrued interest and other monetary assets. Not included are letters of credit, loan commitments, and non-U.S. office local currency claims on residents. Non-U.S. outstandings related to a country are net of guarantees given by third parties resident outside the country and the value of tangible, liquid collateral held outside the country. However, transactions with branches of non-U.S. banks are included in these outstandings and are classified according to the country location of the non-U.S. bank's head office.

Short-term interbank time deposits with non-U.S. banks represent the largest category of non-U.S. outstandings.

Northern Trust actively participates in the interbank market with U.S. and non-U.S. banks.

Northern Trust places deposits with non-U.S. counterparties that have strong internal (Northern Trust) risk ratings and external credit ratings. These non-U.S. banks are approved and monitored by Northern Trust's Counterparty Risk Management Committee, which has credit authority for exposure to all non-U.S. banks and approves credit limits.

This process includes financial analysis of the non-U.S. banks, use of an internal risk rating system and consideration of external market indicators. Each counterparty is reviewed at least annually and potentially more frequently based

on deteriorating credit fundamentals or general market conditions. Separate from the entity-specific review process, the average life to maturity of deposits with non-U.S. banks is deliberately maintained on a short-term basis in order to respond quickly to changing credit conditions. Northern Trust also utilizes certain risk mitigation tools and agreements that may reduce exposures through use of collateral and/or balance sheet netting. Additionally, the Counterparty Risk Management Committee oversees country-risk analyses and imposes limits to country exposure.

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The following table provides information on non-U.S. outstandings by country that exceed 1.00% of Northern Trust's assets.

TABLE 143: NON-U.S. OUTSTANDINGS

(In Millions)	BANKS	COMMERCIAL AND OTHER	TOTAL
AT DECEMBER 31, 2015			
Canada	\$2,293	\$277	\$2,570
Japan	2,290	—	2,290
United Kingdom	428	764	1,192
AT DECEMBER 31, 2014			
Canada	\$2,209	\$304	\$2,513
Australia	878	1,076	1,954
Singapore	1,180	59	1,239
Netherlands	575	658	1,233
Germany	950	165	1,115
AT DECEMBER 31, 2013			
Canada	\$2,779	\$322	\$3,101
Singapore	1,992	13	2,005
Australia	1,347	126	1,473

Countries whose aggregate outstandings totaled between 0.75% and 1.00% of total assets were as follows: Germany with aggregate outstandings of \$1.1 billion, Singapore with aggregate outstandings of \$1.1 billion, Sweden with aggregate outstandings of \$1.1 billion, France with aggregate outstandings of \$1.0 billion, Switzerland with aggregate outstandings of \$976 million, Australia with aggregate outstandings of \$962 million, Netherlands with aggregate outstandings of \$943 million, and Finland with aggregate outstandings of \$925 million at December 31, 2015; Switzerland with aggregate outstandings of \$879 million and Japan with aggregate outstandings of \$859 million at December 31, 2014; and France with aggregate outstandings of \$820 million at December 31, 2013.

TABLE 144: PURCHASED FUNDS

Federal Funds Purchased  
(Overnight Borrowings)

(In Millions)	DECEMBER 31,			
	2015	2014	2013	
Balance on December 31	\$351.5	\$932.9	\$965.1	
Highest Month-End Balance	982.2	3,371.7	2,547.5	
Year – Average Balance	823.6	1,892.2	2,255.5	
– Average Rate	0.08	%0.07	%0.07	%
Average Rate at Year-End	0.05	%0.01	%0.01	%

## Securities Sold under Agreements to Repurchase

(In Millions)	DECEMBER 31,		
	2015	2014	2013
Balance on December 31	\$546.6	\$885.1	\$917.3
Highest Month-End Balance	802.4	1,038.1	917.3

Explanation of Responses:

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Year – Average Balance	649.5	989.6	594.3	
– Average Rate	0.05	%0.04	%0.07	%
Average Rate at Year-End	0.36	%0.13	%0.01	%

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## Other Borrowings

(Includes Treasury Investment Program Balances, Term Federal Funds Purchased and Other Short-Term Borrowings)

(In Millions)	DECEMBER 31,			
	2015	2014	2013	
Balance on December 31	\$4,055.1	\$1,685.2	\$1,558.6	
Highest Month-End Balance	4,123.2	2,307.8	2,065.3	
Year – Average Balance	3,284.9	1,617.3	1,804.9	
– Average Rate	0.15	%0.21	%0.19	%
Average Rate at Year-End	0.16	%0.07	%0.40	%

## Total Purchased Funds

(In Millions)	DECEMBER 31,			
	2015	2014	2013	
Balance on December 31	\$4,953.2	\$3,503.2	\$3,441.0	
Year – Average Balance	4,757.9	4,499.1	4,654.7	
– Average Rate	0.13	%0.11	%0.11	%

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ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A – CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of December 31, 2015, the Corporation's management, with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based on such evaluation, such officers have concluded that, as of December 31, 2015, the Corporation's disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance to the Corporation's management and Board of Directors regarding the preparation of reliable published financial statements. This internal control includes monitoring mechanisms, and actions are taken to correct deficiencies identified.

Management assessed the Corporation's internal control over financial reporting as of December 31, 2015, based on the criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2015, the Corporation maintained effective internal control over financial reporting. Additionally, KPMG LLP, the independent registered public accounting firm that audited the Corporation's consolidated financial statements as of, and for the year ended, December 31, 2015, included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2015.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Corporation's internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND STOCKHOLDERS OF NORTHERN TRUST CORPORATION:

We have audited Northern Trust Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Northern Trust Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Northern Trust Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Northern Trust Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Northern Trust Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 29, 2016 expressed an unqualified opinion on those consolidated financial statements.

CHICAGO, ILLINOIS  
FEBRUARY 29, 2016





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ITEM 9B – OTHER INFORMATION

Not applicable.

PART III

ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by this item is incorporated by reference to “Supplemental Item – Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K, as well as the following sections of the Corporation’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders: “Election of Directors,” “Information about the Nominees for Director,” “Security Ownership by Directors and Executive Officers – Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance – Code of Business Conduct and Ethics,” “Corporate Governance – Director Nominations and Qualifications,” “Board and Board Committee Information – Audit Committee” and “Board and Board Committee Information – Committee Composition.”

ITEM 11 – EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to the “Executive Compensation” and “Director Compensation” sections of the Corporation’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.

ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by this item is incorporated herein by reference to the “Security Ownership by Directors and Executive Officers,” “Security Ownership of Certain Beneficial Owners,” and “Equity Compensation Plan Information” sections of the Corporation’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.

ITEM 13 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by this item is incorporated herein by reference to the “Corporate Governance – Director Independence” and the “Corporate Governance – Related Person Transactions Policy” sections of the Corporation’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this item is incorporated herein by reference to the “Audit Matters” section of the Corporation’s definitive Proxy Statement for the 2016 Annual Meeting of Stockholders.

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PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

ITEM 15(a)(1) AND (2) – NORTHERN TRUST CORPORATION AND SUBSIDIARIES LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

The following financial statements of the Corporation and its Subsidiaries included in Item 8, “Financial Statements and Supplementary Data,” of this Annual Report on Form 10-K are incorporated herein by reference.

For Northern Trust Corporation and Subsidiaries:

Consolidated Balance Sheets - December 31, 2015 and 2014

Consolidated Statements of Income - Years Ended December 31, 2015, 2014, and 2013

Consolidated Statements of Comprehensive Income - Years Ended December 31, 2015, 2014, and 2013

Consolidated Statements of Changes in Stockholders' Equity - Years Ended December 31, 2015, 2014, and 2013

Consolidated Statements of Cash Flows - Years Ended December 31, 2015, 2014, and 2013

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Financial statement schedules have been omitted for the reason that they are not required or are not applicable.

The Quarterly Financial Data (Unaudited) of the Corporation included in “Supplemental Item – Selected Statistical and Supplemental Financial Data” is incorporated herein by reference.

ITEM 15(a)(3) – EXHIBITS

The exhibits listed on the Exhibit Index to this Annual Report on Form 10-K are filed herewith or are incorporated herein by reference to other filings.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 29, 2016  
Northern Trust Corporation

(Registrant)

By: /s/ Frederick H. Waddell  
Frederick H. Waddell  
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Capacity
/s/ Frederick H. Waddell Frederick H. Waddell	Chairman and Chief Executive Officer (Principal Executive Officer)
/s/ S. Biff Bowman S. Biff Bowman	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Jane B. Karpinski Jane B. Karpinski	Senior Vice President and Controller (Principal Accounting Officer)
/s/ Linda Walker Bynoe Linda Walker Bynoe	Director
/s/ Susan Crown Susan Crown	Director
/s/ Dean M. Harrison Dean M. Harrison	Director
/s/ Dipak C. Jain Dipak C. Jain	Director
/s/ Jose Luis Prado Jose Luis Prado	Director
/s/ Thomas E. Richards Thomas E. Richards	Director

Explanation of Responses:





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EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Northern Trust Corporation, as amended to date (incorporated herein by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed April 19, 2006).
3.2	Certificate of Designation of Series C Non-Cumulative Perpetual Preferred Stock of Northern Trust Corporation, dated August 4, 2014 (incorporated herein by reference to Exhibit 4.1 to the Corporation's Current Report on Form 8-K filed August 4, 2014).
3.3	By-laws of Northern Trust Corporation, as amended to date (incorporated herein by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed November 20, 2015).
4.1	Deposit Agreement, dated August 5, 2014, among Northern Trust Corporation, Wells Fargo Bank, N.A., as depository, and the holders from time to time of the depository receipts described therein (incorporated by reference to Exhibit 4.1 to the Corporation's Current Report on Form 8-K filed August 5, 2014).
4.2	Certain instruments defining the rights of the holders of long-term debt of the Corporation and certain of its subsidiaries, none of which authorize a total amount of indebtedness in excess of 10% of the total assets of the Corporation and its subsidiaries on a consolidated basis, have not been filed as exhibits. The Corporation hereby agrees to furnish a copy of any of these agreements to the SEC upon request.
10.1**	Deferred Compensation Plans Trust Agreement, dated May 11, 1998, between Northern Trust Corporation and Harris Trust and Savings Bank as Trustee (which, effective August 31, 1999, was succeeded by U.S. Trust Company, N.A. and effective June 1, 2009, was succeeded by Evercore Trust Company, N.A.) regarding the Supplemental Employee Stock Ownership Plan for Employees of The Northern Trust Company, the Supplemental Thrift-Incentive Plan for Employees of The Northern Trust Company, the Supplemental Pension Plan for Employees of The Northern Trust Company, and the Northern Trust Corporation Deferred Compensation Plan (incorporated herein by reference to Exhibit 10(iv) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
(i)**	Amendment, dated August 31, 1999 (incorporated herein by reference to Exhibit 10(vi) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999).
(ii)**	Second Amendment, dated as of May 16, 2000 (incorporated herein by reference to Exhibit 10(v) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000).
10.2**	Northern Trust Corporation Supplemental Employee Stock Ownership Plan, as amended and restated effective as of January 1, 2008 (incorporated herein by reference to Exhibit 10(vi) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2008).
10.3**	Northern Trust Corporation Supplemental Thrift-Incentive Plan, as amended and restated effective as of January 1, 2008 (incorporated herein by reference to Exhibit 10(vii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2008).
(i)**	Amendment Number One, dated October 29, 2009 and effective January 1, 2010 (incorporated herein by reference to Exhibit 10(vi)(1) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2009).

(ii)\*\* Amendment Number Two, dated August 6, 2015 and effective January 1, 2015 (incorporated herein by reference to Exhibit 10.1 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015).

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Exhibit Number	Description
10.4**	Northern Trust Corporation Supplemental Pension Plan, as amended and restated effective January 1, 2009 (incorporated herein by reference to Exhibit 10(viii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2008).
10.5**	Northern Trust Corporation Deferred Compensation Plan, as amended and restated effective as of January 1, 2008 (incorporated herein by reference to Exhibit 10(ix) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2008).
10.6**	Amended and Restated Northern Trust Corporation 2002 Stock Plan, effective as of January 1, 2008 (incorporated herein by reference to Exhibit 10(xiv) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2008).
(i)**	Form of 2010 Stock Option Terms and Conditions (incorporated herein by reference to Exhibit 10(x)(9) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2009).
(ii)**	Form of 2011 Executive Stock Option Terms and Conditions (incorporated herein by reference to Exhibit 10(v) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
(iii)**	Form of 2012 Executive Stock Option Award Terms and Conditions (incorporated herein by reference to Exhibit 10.7(xix) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2011).
(iv)**	Form of 2012 Stock Unit Award Terms and Conditions (incorporated herein by reference to Exhibit 10.7(xxiii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2011).
10.7**	Northern Trust Corporation 2012 Stock Plan (incorporated herein by reference to Exhibit 10.1 to the Corporation's Current Report on Form 8-K filed April 19, 2012).
(i)**	Form of Director Stock Unit Agreement (incorporated herein by reference to Exhibit 10(iii) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
(ii)**	Form of Director Prorated Stock Agreement (incorporated herein by reference to Exhibit 10(iv) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
(iii)**	Form of New Director Stock Unit Agreement (incorporated herein by reference to Exhibit 10(v) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
(iv)**	Form of 2012 Executive Stock Option Terms and Conditions (incorporated herein by reference to Exhibit 10(i) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).
(v)**	Form of 2012 Stock Unit Award Terms and Conditions (incorporated herein by reference to Exhibit 10(v) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).
(vi)**	

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Form of 2013 Executive Stock Option Terms and Conditions (incorporated herein by reference to Exhibit 10.7(xii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2012).

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Exhibit Number	Description
(vii)**	Form of 2013 Performance Stock Unit Award Terms and Conditions (incorporated herein by reference to Exhibit 10.7(xiv) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2012).
(viii)**	Form of 2013 Stock Unit Award Terms and Conditions (incorporated herein by reference to Exhibit 10.7(xviii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2012).
(ix)**	Form of 2013 Stock Unit Award Terms and Conditions (Alternate Vesting) (incorporated herein by reference to Exhibit 10.7(xix) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2012).
(x)**	Form of 2014 Executive Stock Option Terms and Conditions (incorporated herein by reference to Exhibit 10.7(xi) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
(xi)**	Form of 2014 Performance Stock Unit Award Terms and Conditions (incorporated herein by reference to Exhibit 10.7(xii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
(xii)**	Form of 2014 Stock Unit Award Terms and Conditions (incorporated herein by reference to Exhibit 10.7(xiii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
(xiii)**	Form of 2014 Stock Unit Award Terms and Conditions (Alternate Vesting) (incorporated herein by reference to Exhibit 10.7(xiv) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2013).
(xiv)**	Terms and Conditions of 2016 Equity Awards under the Northern Trust Corporation 2012 Stock Plan.
10.8**	Northern Trust Corporation Management Performance Plan, as amended and restated effective October 16, 2012 (incorporated herein by reference to Exhibit 10(viii) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012).
10.9**	Northern Trust Corporation 1997 Stock Plan for Non-Employee Directors (incorporated herein by reference to Exhibit 10(xix) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998).
10.10**	Northern Trust Corporation 1997 Deferred Compensation Plan for Non-Employee Directors, as amended and restated effective as of July 15, 2014 (incorporated herein by reference to Exhibit 10.1 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014).
10.11**	Form of Employment Security Agreement (Tier 1) (incorporated herein by reference to Exhibit 10(ii) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).
10.12**	Revised Form of Employment Security Agreement (Tier 1) (incorporated herein by reference to Exhibit 10(i) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011).

10.13\*\* Form of Non-Solicitation Agreement and Confidentiality Agreement (incorporated herein by reference to Exhibit 10(iii) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009).

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Exhibit Number	Description
10.14**	Northern Trust Corporation 2012 Long Term Cash Incentive Plan (incorporated herein by reference to Exhibit 10(i) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
(i)**	Form of 2012 Long Term Cash Incentive Award Terms and Conditions (incorporated herein by reference to Exhibit 10.19 to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2011).
(ii)**	Amendment Number One to the 2012 Long Term Cash Incentive Plan, dated as of January 20, 2015 (incorporated herein by reference to Exhibit 10.14(ii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2014).
10.15**	Northern Trust Corporation Executive Financial Consulting and Tax Preparation Services Plan, as amended and restated effective January 1, 2008 (incorporated herein by reference to Exhibit 10 (xxxiii) to the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2007).
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Rule 13a-14(a)/15d-14(a) Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Includes the following financial and related information from the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets as of December 31, 2015 and 2014, (ii) the Consolidated Statements of Income for the twelve months ended December 31, 2015, 2014 and 2013, (iii) the Consolidated Statements of Comprehensive Income for the twelve months ended December 31, 2015, 2014 and 2013, (iv) the Consolidated Statements of Changes in Stockholders' Equity for the twelve months ended December 31, 2015, 2014 and 2013, (v) the Consolidated Statements of Cash Flows for the twelve months ended December 31, 2015, 2014 and 2013, and (vi) Notes to Consolidated Financial Statements.

\*\* Indicates a management contract or a compensatory plan or agreement.