
DISCLOSURE RELATING TO MATERIAL INCENTIVES AND CONFLICTS OF INTEREST (pursuant to CFTC Regulation 23.431(a)(3)) INTEREST RATE SWAPS

The Northern Trust Company (“Northern Trust” or “we” or “us” or “our”) is a swap dealer registered with the Commodity Futures Trading Commission (“CFTC”). Under CFTC Regulation 23.431(a)(3), Northern Trust is required to disclose to each counterparty (other than a swap dealer, major swap participant, security based swap dealer or major security-based swap participant) to a “swap” (as that term is defined in the Commodity Exchange Act, as amended (the “CEA”)) material information concerning the swap in a manner reasonably designed to allow the counterparty to assess the material incentives and conflicts of interest that Northern Trust may have in connection with such swap. This statement (this “Disclosure Statement”) is being delivered to you as counterparty or potential counterparty to Northern Trust under one or more interest rate derivative transactions that constitutes a “swap” under the CEA (each such swap being a “Rates Transaction”). We are delivering this Disclosure Statement to you for the sole purpose of complying with our regulatory obligations as a swap dealer. Nothing in this Disclosure Statement amends, modifies or supersedes the terms of any transaction between you and us or any agreement between us regarding the same.

Northern Trust acts as counterparty when entering into Rates Transactions, taking principal positions and risks. Such, when Northern Trust enters into a Rates Transaction with you, it is acting only as principal, and is not acting as a broker, agent or fiduciary. This is the case even though we also may have other relationships with you in which we may act in other capacities, including as your lender, custodian, trustee, collateral manager, or any other manner in which we act in the financial or commercial markets. We may use information that we obtain from you in other capacities in the pricing, determination of legal and economic terms, execution and enforcement of Rates Transactions with you.

Northern Trust does not expect to receive any fees, rebates, discounts, revenue or profit sharing or other incentive-based payments from third parties for entering into a Rates Transaction with you. Northern Trust also does not expect to enter into a Rates Transaction with you as part of a strategy to move a particular position off of our books and records. If we are acting as lender in connection with a loan to you or your affiliate, your loan documentation may contain a provision that requires an interest rate hedge. When entering into a Rates Transaction with you, we are acting only in our capacity as dealer, and no requirement in any loan documentation constitutes a recommendation by us that any Rates Transaction is suitable, necessary or appropriate for you. We make no representation or warranty that any Rates Transaction satisfies any requirement under loan documentation with us or any other lender. However, if you enter into a Rates Transaction with us in connection with a loan in which we are acting as lender, we may earn revenue and/or profit in addition to the revenue or profit that we would have earned had you not entered into a hedging transaction or had you entered into a hedging transaction with another party. In addition, the revenue and/or profit we earn may vary depending on the type of Rates Transaction we enter into with you. For example, we may earn additional revenue and/or profit if we enter into an interest rate swap with you as opposed to an interest rate cap. This is the case because our revenue on the interest rate cap is limited to the cap fee that we charge, and our profit is offset by our cost of entering into an offsetting hedge. Our profit on an interest rate swap with you generally reflects the excess of the fixed amount that you pay us over the fixed amount that we pay our counterparty under our offsetting hedge. We are not required to enter into an offsetting hedge, and if we do so, we may not do so until after we have entered into a Rates Transaction with you. In any case, our actual hedging cost may exceed the cost of your Rates Transaction. Accordingly, while we generally expect to make a profit when entering into a Rates Transaction with you, and we are materially incentivized by such profit when entering into such Rates Transaction with you, we are not guaranteed any such profit.

Furthermore, if we are requested or required to unwind our Rates Transactions with you prior to their scheduled termination dates, either we or you may be required to make a net termination payment. In that case, we may also unwind our hedge transactions with a third party, and may be required to make or receive a termination payment in respect of our offsetting hedges. The termination



payment we make to you may be less than the termination payment we receive from our third party hedge counterparty, or the termination payment we receive from you may be less than the termination payment we make to our third party hedge counterparty. In that case, we will receive a net gain as a result of early termination, and accordingly we may have a material incentive to unwind our Rates Transactions with you whenever we have the right to do so. While we generally expect that we would receive a net gain in such case, it is possible that we (i) may be required to make a termination payment to you that is greater than the amount we are entitled to receive from our counterparty in respect of our offsetting hedges, (ii) will receive an amount from you that is less than the amount that we are required to pay to our third party hedge counterparty, or (iii) will not collect the termination payment from you while being required to make a payment to our third party hedge counterparty. Either of the foregoing three cases may result in us incurring losses.

It also may be the case that the occurrence of certain events under our loan documentation with you will give us the right to unwind our Rates Transactions with you prior to their scheduled termination dates, and certain events under our documentation with you governing the Rates Transactions will give us, or an agent on our behalf and on behalf of other lenders, the right to accelerate our loans with you. We therefore may have the incentive to unwind our Rates Transactions with you based on considerations involving the nature or status of our loan relationship with you at the time, including credit and other considerations applicable solely to our lending relationship. As lender, we may have the incentive to accelerate our loans, or terminate our lending relationship, based on events that occur under our Rates Transactions with you. When making any determinations under our Rates Transactions with you, to the extent permitted under our documentation with you, we may consider our interests as lender, custodian, trustee, collateral manager or otherwise, and we may also consider the effect of such determinations on our offsetting hedge positions.

Subject to applicable law, it may be economically advantageous for us to execute a Rates Transaction with you bilaterally as opposed to submitting such transaction for clearing to a derivatives clearing organization. Accordingly, we may have the incentive to assist you in electing the end-user clearing exception to the extent it is available for your Rates Transaction.

In addition, for certain types of Rates Transactions, as a swap dealer we may be required to submit our offsetting transaction for clearing. Other types of Rates Transactions may not be subject to a clearing mandate. If our costs, including clearing, funding and collateral costs, are lower if we are not required to submit our offsetting transaction for clearing, we may be incentivized to enter into a Rates Transaction with you that is of a type that is not required to be submitted for clearing. In addition, we may be incentivized to enter into a type of Rates Transaction with you that results in lower overall costs to us, including funding and margin costs in connection with our offsetting transactions.