

# Northern Trust Corporation

## Liquidity Coverage Ratio Public Disclosure

*For the quarterly period ended September 30, 2020*

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## Northern Trust Corporation Overview

Northern Trust Corporation (the “Corporation”) is a financial holding company that is a leading provider of wealth management, asset servicing, asset management, and banking solutions to corporations, institutions, families and individuals. The Corporation focuses on managing and servicing client assets through its two client-focused reporting segments: Corporate & Institutional Services and Wealth Management. Asset management and related services are provided to Corporate & Institutional Services and Wealth Management clients primarily by the Asset Management business. The Corporation conducts business through various U.S. and non-U.S. subsidiaries, including through its principal subsidiary, The Northern Trust Company. At September 30, 2020, the Corporation had consolidated total assets of \$152.1 billion and stockholders’ equity of \$11.6 billion. Except where the context requires otherwise, the term “Northern Trust” means the Corporation and its subsidiaries on a consolidated basis.

## U.S. Liquidity Coverage Ratio

In September 2014, the U.S. banking agencies finalized rules (“LCR Final Rule”) to implement the calculation of the Basel Committee on Banking Supervision liquidity coverage ratio (“LCR”) in the United States for large banking organizations, such as the Corporation. The requirements of the LCR Final Rule are intended to promote the short-term resilience of the liquidity risk profile of covered banking organizations, improve the banking industry’s ability to absorb shocks arising from financial and economic stress and improve the measurement and management of liquidity risk. Among other things, the LCR Final Rule requires covered banking organizations, which include the Corporation, to maintain an amount of high-quality liquid assets (“HQLAs”) equal to or greater than 100% of the banking organization’s total net cash outflows over a 30 calendar-day standardized supervisory liquidity stress scenario. The Corporation has been required to calculate its LCR on a daily basis since July 2016.

The numerator of the LCR, the HQLA amount, is comprised of three categories of assets: Level 1 liquid assets, Level 2A liquid assets and Level 2B liquid assets. The fair values, as determined under U.S. generally accepted accounting principles (“GAAP”), of the banking organization’s Level 2A liquid assets and Level 2B liquid assets are subject to prescribed haircuts of 15% and 50%, respectively, as they are considered less liquid than Level 1 assets. The amount of Level 2 liquid assets (Level 2A and Level 2B together) may not comprise more than 40% of the banking organization’s total HQLA amount. The amount of Level 2B liquid assets may not comprise more than 15% of the total HQLA amount. There is no cap on the amount of Level 1 liquid assets included in the total HQLA amount as these assets are considered the most liquid.

The denominator of the LCR, the total net cash outflow amount, is determined under the LCR Final Rule by applying outflow and inflow rates, which reflect certain standardized stressed assumptions, against the balances of the banking organization’s funding sources, obligations, transactions and assets over a prospective 30 calendar-day period. Inflows that can be included to offset outflows are limited to 75% of outflows to ensure that the banking organization is maintaining sufficient on-balance-sheet liquidity and is not overly reliant on inflows, which may not materialize in a period of stress.

## LCR Public Disclosure Requirement

In December 2016, the Board of Governors of the Federal Reserve System issued the U.S. LCR Disclosure Rule. Under this rule, the Corporation is required to disclose publicly, on a quarterly

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basis, quantitative information about its LCR calculation and a qualitative discussion of the factors affecting its LCR.

This public disclosure contains the Corporation's LCR quantitative and qualitative information for the quarter ended September 30, 2020. The Corporation's average LCR of 108% in the third quarter of 2020 increased from a LCR of 107% in the second quarter of 2020. The Corporation's average quarterly LCR may fluctuate period over period due to normal business activity driven by client activity, management decisions and market conditions.

## Northern Trust Corporation LCR - Quantitative

3Q20 Northern Trust Corporation's Liquidity Coverage Ratio Calculation & Components		
July 1, 2020 to September 30, 2020 (In millions of U.S. Dollars)	Average Unweighted Amount <sup>(1)</sup>	Average Weighted Amount <sup>(1)</sup>
<b>High-Quality Liquid Assets</b>		
<b>(1) Total eligible high-quality liquid assets (HQLA), of which:</b>	<b>59,064</b>	<b>58,851</b>
(2) Eligible Level 1 liquid assets	57,640	57,640
(3) Eligible Level 2A liquid assets	1,425	1,211
(4) Eligible Level 2B liquid assets	—	—
<b>Cash Outflow Amounts</b>		
<b>(5) Deposit outflow from retail customers and counterparties, of which:</b>	<b>12,450</b>	<b>1,369</b>
(6) Stable retail deposit outflow	2,444	73
(7) Other retail funding	8,741	874
(8) Brokered deposit outflow	1,265	422
<b>(9) Unsecured wholesale funding outflow, of which:</b>	<b>101,848</b>	<b>50,637</b>
(10) Operational deposit outflow	53,521	13,351
(11) Non-operational funding outflow	45,803	36,857
(12) Unsecured debt outflows	—	—
(13) Secured wholesale funding and asset exchange outflow	2,524	430
<b>(14) Additional outflow requirements, of which:</b>	<b>32,534</b>	<b>11,422</b>
(15) Outflow related to derivative exposures and other collateral requirements	6,172	6,172
(16) Outflow related to credit and liquidity facilities including unconsolidated structured transactions and mortgage commitments	26,362	5,249
<b>(17) Other contractual funding obligation outflow</b>	<b>159</b>	<b>159</b>
<b>(18) Other contingent funding obligations outflow</b>	<b>—</b>	<b>—</b>
<b>(19) Total Cash Outflow</b>	<b>146,992</b>	<b>63,588</b>
<b>Cash Inflow Amounts</b>		
<b>(20) Secured lending and asset exchange cash inflow</b>	<b>456</b>	<b>41</b>
<b>(21) Retail cash inflow</b>	<b>722</b>	<b>361</b>
<b>(22) Unsecured wholesale cash inflow</b>	<b>8,547</b>	<b>8,384</b>
<b>(23) Other cash inflows, of which:</b>	<b>979</b>	<b>979</b>
(24) Net derivative cash inflow	838	838
(25) Securities cash inflow	141	141
(26) Broker-dealer segregated account inflow	—	—
(27) Other cash inflow	—	—
<b>(28) Total Cash Inflow</b>	<b>10,704</b>	<b>9,766</b>
		<b>Average Amount <sup>(2)</sup></b>
<b>(29) HQLA amount</b>		<b>58,851</b>
<b>(30) Total net cash outflow amount excluding the maturity mismatch add-on</b>		<b>53,822</b>
<b>(31) Maturity mismatch add-on</b>		<b>486</b>
<b>(32) Total net cash outflow amount</b>		<b>54,308</b>
<b>(33) Liquidity Coverage Ratio (%)</b>		<b>108 %</b>
(1) Figures may not sum due to rounding		
(2) The amounts reported in this column may not equal the calculation of those amounts using component amounts reported in rows 1-28 due to technical factors such as the application of Level 2 liquidity asset caps, the total inflow cap, and for depository institution holding companies subject to subpart G, the application of the modification to total net cash outflows.		

## Northern Trust Corporation LCR - Qualitative

### Eligible HQLAs:

The Corporation's balance sheet includes liquid short-term money market assets and investment securities, both providing a strong source of liquidity.

For the third quarter of 2020, the Corporation's total eligible average weighted HQLAs were \$58.9 billion. Level 1 liquid assets, considered the most liquid under the LCR Final Rule, accounted for approximately 98% of the total eligible average weighted HQLAs, or \$57.6 billion. The Level 1 liquid assets, which are not limited and do not draw a haircut under the LCR Final Rule, include central bank reserves, U.S. Treasury securities, and securities issued or guaranteed by sovereigns. Level 2A liquid assets, which receive a 15% haircut per the LCR Final Rule, accounted for approximately 2% of the total eligible average weighted HQLAs, or \$1.2 billion.

### Cash Outflow Amounts:

The Corporation's balance sheet is liability-driven. That is, the main driver of balance sheet changes is changing levels of client deposits, which are generally related to the level of global custody assets serviced and commercial and personal deposits. This liability-driven business model differs from a typical asset-driven business model, where increased levels of deposits and wholesale borrowings are required to support, for example, increased levels of lending for execution of the bank's investment strategy. The liability-driven balance sheet is reflected in the Corporation's LCR cash outflows.

For the third quarter of 2020, the Corporation's average weighted cash outflow was \$63.6 billion. The largest drivers of this total were operational deposit outflows and non-operational funding outflows. Both of these items are driven by the Corporation's institutional custody clients. Under the LCR Final Rule, operational deposits are considered a stable source of funding and draw a 25% outflow rate. Average weighted operational deposits equaled \$13.4 billion for the third quarter 2020. Non-operational funding outflow rates are higher under the LCR Final Rule, ranging from 100% for deposits with financial counterparties to 40% for most other non-financial counterparties. The Corporation's average weighted non-operational deposits equaled \$36.9 billion for the third quarter of 2020.

### Cash Inflow Amounts:

The Corporation's average weighted cash inflows totaled \$9.8 billion, mainly driven by weighted unsecured wholesale cash inflows of \$8.4 billion for the third quarter of 2020. This amount was comprised of time deposits placed at other financial institutions that mature within 30 days and demand balances held at other banks which support the Corporation's global payment, clearing and settlement business.

## Risk Management Overview

Northern Trust employs an integrated risk management framework to support its business decisions and the execution of its corporate 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 and good conduct across the organization. Northern Trust's risk culture encompasses the general awareness, attitude and conduct of employees with respect to risk and the management of risk across all lines of defense

within the organization. Northern Trust cultivates a culture of effective risk management by defining and embedding risk management accountabilities in all employee performance expectations and provides training, development and performance rewards to reinforce this culture.

Northern Trust's risk management framework contains three inter-related elements, designed to support consistent enterprise risk identification, management and reporting: a comprehensive risk inventory, a static taxonomy of risk categories and a dynamic taxonomy of risk themes. The risk inventory is a detailed register of the risks inherently faced by Northern Trust. The risk categories and risk themes are classification systems used for classifying and managing the risk inventory and enabling different risk profile views. All identified risks inherent in Northern Trust's business activities are cataloged into the following risk categories: credit, operational, fiduciary, compliance, market, liquidity, and strategic risk. All material risks are also dynamically cataloged into various risk themes which are defined groupings that share common characteristics, focus on business outcomes and span across risk categories.

Northern Trust implements its risk management framework through a "three lines of defense" operating model, embedding a robust risk management capability within its businesses. The model, used to communicate risk management expectations across the organization, contains three roles, each a complementary level of risk management accountability. Within this operating model, 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. The Risk Management function, the second line of defense, sets the direction for Northern Trust's risk management activities and provides aggregate risk oversight and reporting in support of risk governance. Audit Services, the third line of defense, provides independent assurance as to the effectiveness of the integrated risk framework.

### **Liquidity Risk**

Liquidity risk is the risk of not being able to raise sufficient funds or maintain collateral to meet balance sheet and contingent liability cash flow obligations when due, because of firm-specific or market-wide stress events.

### **Liquidity Risk Overview**

As noted above, Northern Trust maintains a strong liquidity position and conservative liquidity risk profile. Northern Trust's balance sheet is primarily liability-driven. That is, the main driver of balance sheet changes comes from changing levels of client deposits, which are generally related to the level of custody assets serviced and commercial and personal deposits. This liability-driven business model differs from a typical asset-driven business model, where increased levels of deposits and wholesale borrowings are required to support, for example, increased levels of lending. Northern Trust's balance sheet is generally comprised of high-quality assets that are managed to meet anticipated obligations under stress, resulting in low liquidity risk.

### **Liquidity Risk Framework and Governance**

Northern Trust maintains a liquidity risk framework consisting of risk management policies and practices to keep its risk profile within the Board-approved Corporate Risk Appetite Statement. All liquidity risk activities are overseen by the Risk Management function, which is independent of the businesses undertaking the activities.

The Liquidity Management Policy and exposure limits for liquidity 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. Limits are monitored based on measures such as the LCR and the liquidity stress-testing buffer across a range of time horizons. Treasury, in the first line of defense, proposes liquidity risk management strategies and is responsible for performing liquidity management activities. The Asset and Liability Management Committee (ALCO) provides first line management oversight and is responsible for approving strategies and activities within the risk appetite, monitoring risk metrics, overseeing balance sheet resources, and reviewing reporting such as cash flows, LCR, and stress test results.

Market and Liquidity Risk Management, in the second line of defense, provides challenge to the first line activities, evaluates compliance with regulatory requirements and process effectiveness, and escalates material items for corrective action. The Market & Liquidity Risk Committee (MLRC) provides second line oversight and is responsible for reviewing market and liquidity risk exposures, approving and monitoring risk metrics, and approving key methodologies and assumptions that drive liquidity risk measurement.

### **Liquidity Risk Analysis, Monitoring, and Reporting**

Liquidity risk is analyzed and monitored in order to ensure compliance with the approved risk appetite. Various liquidity analysis and monitoring activities are employed by Northern Trust to understand better the nature and sources of its liquidity risks, including: liquidity stress testing, liquidity metric monitoring, collateral management, intraday management, cash flow projections, operational deposit modeling, liquid asset buffer measurement, funds transfer pricing, and contingency funding planning.

The liquidity risk management process is supported through management and regulatory reporting. Both Northern Trust's Treasury and Market and Liquidity Risk Management functions produce management reports that enable oversight bodies to make informed decisions and support management of liquidity risk within the approved risk appetite. Holistic liquidity metrics such as LCR and internal liquidity stress testing are actively monitored, along with a suite of other metrics that provide early warning indicators of changes in the risk profile.

## **Forward-Looking Statements**

This document 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," "target," "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 the Corporation's liquidity coverage ratio, factors influencing such ratio and its components and the Corporation's management of such ratio and its components. These statements are based on the Corporation'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 the factors discussed in the Corporation's most recent annual report on Form 10-K and other filings with the U.S. Securities and Exchange Commission, all of which are available on the Corporation's website. We caution you not to place undue reliance on any forward-looking



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statement as actual results may differ materially from those expressed or implied by forward-looking statements. The Corporation assumes no obligation to update its forward-looking statements.