Statement of Investment Principles

Introduction

This is the Statement of Investment Principles made by Northern Bank Pension Trust Limited ("the Trustee") in its capacity as Trustee of the Northern Bank Pension Scheme ("the Scheme") in accordance with the Pensions (Northern Ireland) Order 1995 (as amended). It is subject to periodic review by the Trustee at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the principal employer to the Scheme (Northern Bank Limited) and has taken and considered written advice from Hymans Robertson LLP.

Investment Objective

The primary purpose of the Scheme is to provide pension benefits for members on their retirement and/or benefits on death (before or after retirement) for their dependents, on a defined benefits basis.

The Trustee's statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions liabilities. Further details are provided in the Statement of Funding Principles. The funding position is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation or more frequently, as required by legislation.

The Trustee's objective with regard to the Scheme's investments is to ensure that the accumulated fund, together with the contributions payable by the Company in future, are invested in such a manner that the individual benefits for each member can be paid from the Scheme as they arise. In framing an investment strategy, the Trustee has adopted a quantitative objective of achieving a funding level of at least 100% measured on a gilts-flat basis by 30 September 2025.

Investment Strategy

The Trustee has entered into two buy-in policies in respect of liabilities for pensions in payment with Prudential and Aviva. The Prudential policy covers pensions in payment as at 31 December 2013. This policy was subsequently adjusted to take account of additional retirees to 1 February 2015 and other membership changes. The Prudential policy represents around 40% of the value of the Scheme's total liabilities.

The Aviva buy-in policy covers pensioners who retired following the completion of the previous buy-in, and prior to 1 June 2020. This policy was also subsequently adjusted to take account of pensions in payment at 6 October 2021. The Aviva policy represents around20%of the value of the Scheme's total liabilities.

In respect of the Scheme's non buy-in assets, the Trustee has adopted a strategic asset allocation benchmark for the Scheme which reflects the quantitative objective set out above. The Strategic benchmark for the non buy-in assets is set out in the table below.

Asset Class	Current strategy
Growth Assets (Equities)	**8%**
Income/Protection Assets	**92%**
Investment grade bonds	32%
Property	7%
Other matching/hedging assets[1]	53%

[1] inclusive of cash, and hedging assets held within the managed account and can consist of gilts, index-linked gilts, interest rate and inflation swaps.

The investment strategy takes due account of the maturity profile of the Scheme's non-insured liabilities (i.e. those not covered by the buy-in policies) in terms of the relative proportions of liabilities in respect of pensioners and non-pensioners together with the level of disclosed surplus or deficit (relative to the funding bases used).

Within the overall strategy, the Trustee has agreed target levels for the management of the Scheme's interest rate and inflation exposure. The table below shows the current hedging level targets on a gilts flat funding target.

Proportion of gilt based liabilities	Current target
Interest rates	95%
Inflation	90%

Hedging levels are set with reference to a simplified liability cashflow benchmark after making an approximate allowance for the buy-in policy with Aviva.

The Trustee regularly monitors asset allocation, interest rate and inflation hedging and fund performance relative to agreed targets. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme and will normally be reviewed annually. In reviewing strategy, the Trustee will seek written advice as required.

Implementation of investment strategy

All day to day investment decisions have been delegated to authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Scheme invests. The Scheme benchmark is consistent with the Trustee's views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

Kinds of investments to be held

The Trustee may invest in quoted and unquoted securities of UK and overseas markets, including equities and fixed interest and index linked bonds, cash, property, either directly or through pooled funds.

The Trustee may also make use of derivatives and contracts for difference (either directly or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks.

The Trustee may also enter into insurance policies for the purposes of increasing the security of benefits for members.

The Trustee considers all of these classes of investment to be suitable given the circumstances of the Scheme.

Balance between different kinds of investments

The mix of investments is determined mainly by the choice of strategic asset allocation benchmark as outlined above. Within each major market, the manager will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

Choosing Investments

The Trustee has entered into two buy-in policies. The first of these is with Prudential Assurance Company. The Prudential policy provides a series of monthly cashflows to the Scheme in respect of pensions which were already in payment as at 31 December 2013, subsequently adjusted to take account of additional retirees to 1 February 2015 and other membership changes.

The second buy-in policy is held with Aviva Life & Pensions UK Limited. This policy provides series of monthly cashflows to the Scheme in respect of pensions in payment from 1 February 2015 until 31 May 2020, subsequently adjusted to take account of additional retirees covering pensions in payment as at 6 October 2021.

In respect of the non buy-in assets, the Trustee will appoint one or more investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business, employing a mixture of active and passive management.

The Trustee has currently appointed BlackRock as investment manager and has given the manager specific directions as to the asset allocation. However, specific investment choices have been delegated to the manager, subject to their benchmark and asset guidelines.

- For equity assets, the Trustee has chosen to invest in passive regional equity funds which have the objectives to track the relevant benchmark return closely.
- For corporate bond assets, the Trustee will invest in actively managed investment grade funds that seek to outperform the relevant benchmark. The corporate bond funds also contribute to the target interest rate hedge ratio.
- The Scheme's hedging portfolio will be held within a managed account which can hold cash, gilts, index linked gilts and gilt derivatives together with interest rate and inflation swaps.

The Trustee considers the different approaches described above and the balance between them to be suitable, given the circumstances of the Scheme. This combination results in a diversified mix of assets with good geographic spread and high diversification across the underlying stocks held within these funds.

The Trustee has appointed Osborne King and may use other property advisers to advise on the purchase, management and sale of a portfolio of direct property investments.

Expected return on investments

Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the Actuary in funding the Scheme. The Trustee expects the current strategy (excluding the buy-ins) to achieve a return of around 0.7% per annum in excess of gilt returns, excluding any allowance for outperformance from the investment managers and a contribution from the over-insurance of pension increases. The Trustee expects that allowing for these factors would add around 0.3% p.a. to the expected return, though the Trustee adopts a prudent approach and does not budget for these items until they are earned.

Realisation of investments

The vast majority of the Scheme's investments may be realised quickly if required. However, the Trustee recognises that property (which makes up c7% of the portfolio) may be more difficult to realise quickly in certain circumstances.

The Trustee will also retain a minimum level of £10m in cash in order to meet benefit payments as needed.

Manager engagement

The Trustee has appointed its investment manager (BlackRock) to deliver returns relative to specific benchmarks, which overall will align to deliver the broader Scheme investment strategy. The Trustee ensures that BlackRock has clearly defined benchmarks, objectives and management parameters. The direct property holdings do not track a specific benchmark; however, have a defined role within the broader investment strategy.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Scheme. Where such tailoring is not directly achievable, the Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Scheme. The Trustee will take advice in determining the appropriateness of each manager and mandate for the Scheme. By investing in this manner, the Trustee is confident that the managers appointed will make decisions which are commensurate with the period over which the Trustee expects to be invested in each mandate.

The Trustee reviews the performance of each of its mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed. The Trustee draws input from their investment adviser to support any such review of and engagement with its investment managers. Where necessary, the Trustee will highlight any areas of concern identified during such reviews to the manager as part of its engagement process.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may consider and agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark. Given the nature of the Scheme's funds the Trustee do not currently pay an outperformance fee. The Trustee periodically review the fees paid to all of its managers against industry standards.

The Trustee recognises the long-term nature of its liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The duration of each mandate is determined by the Trustee at the inception of each mandate. For open-ended investments, the Trustee generally engages on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics, in addition to reconsidering their continued appropriateness within the investment strategy. The Trustee regularly meets with Osborne King to discuss the ongoing management of the Scheme's property portfolio.

The Trustee has expectations of the level of turnover within each mandate which are determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the underlying portfolio. Whilst the Trustee expects financial performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee also expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period, including details of the costs associated with transactions. The Trustee will challenge the manager if there is a material deviation in portfolio turnover from expectations or historic experience within the mandate.

A summary of the Scheme's investment mandates and the respective benchmarks is included in the appendix.

Risk

The Trustee recognises and monitors a number of risks involved in the investment of assets of the Scheme. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk**. The risk that the funding level is adversely affected due to a mismatch between the assets and liabilities.
    - The asset allocation benchmark has been determined with specific reference to the Scheme's liabilities and this is reviewed formally at least once every three years.
    - The Trustee has established re-balancing ranges and monitors the Scheme's asset allocation relative to these ranges on an ongoing basis. This serves to control the risk that the returns could deviate too far from the return on the chosen benchmark.
    - The Trustee has also sought to mitigate the Scheme's interest rate and inflation risks through a liability hedging arrangement.
    - This risk is also monitored through regular actuarial and investment reviews.

- **Underperformance Risk**. The risk of underperforming the benchmarks and objectives set by the Trustee. This risk is minimised using the following techniques:
  - Appropriate diversification across asset classes within sectors and between individual stocks to minimise the effect of a particular stock or sector performing badly.
  - The use of passive management for asset classes where the downside risk of active management is considered too high.
  - Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate.
  - The Trustee does not expect managers to take excessive short term risk.
- **Systemic Risk.** The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Scheme's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts. The Trustee seeks to mitigate systemic risks through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.
- **Country Risk**. The risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across several countries. This is monitored by ensuring that the Scheme is not overexposed to a particular country. The Trustee also mitigates the risk associated with exchange rate movements through its investments in pooled currency hedged funds with its investment manager.
- **Concentration risk**. The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. This is mitigated by ensuring investment in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector.
- **Credit/Default Risk.** The possibility of loss arising from a borrowers failure to meet contractual obligations under the terms of a loan or to repay a loan. This is addressed through the imposition of restrictions on the Managers through the Investment Management Agreements or Fund Offering Documents.
- **Buy-In provider risk.** This is addressed through a number of mechanisms including the supervisory regime applicable to insurance companies and the collateralised nature of the buy-in policy. The Trustee receives regular reports and certifications from both Prudential Assurance Company and Aviva relating to the Scheme's buy-in policies. The Trustee also receives regular (annual) reports from LCP to independently review Prudential's calculation of the Policy Resources and compliance with collateral obligations
- **Organisational Risk**. This is addressed through regular monitoring of the investment managers and Trustee's advisors.
- **Sponsor Risk**. This is the risk of the Employer ceasing to exist or having insufficient resources to meet the agreed recovery plan, which for reasons of prudence, the Trustee has taken into account when setting the asset allocation strategy.
- **Liquidity Risk**. The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets. The Trustee manages this risk by investing the majority of the assets in asset classes which are realisable with sufficient notice to meet the Scheme's cash flow requirements.
- **Demographic Risk.** The Trustee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation. The buy-in policy also provides a partial hedge to the Scheme's risk of increasing longevity.

- **Counterparty Risk**. This is the risk of a counterparty to a derivative arrangement defaulting on its future obligation to the Scheme. BlackRock has arrangements in place with a wide range of counterparties and the Trustee has set out criteria to ensure that counterparty exposure is sufficiently diversified.
- **Transition Risk**. This is the risk of paying unnecessary costs or being at increased risk of adverse market movements when transitioning assets from one manager or asset class to another. This risk is mitigated by organising transitions in a structured fashion with the advice of the Advisors or by using a specialist transition manager if appropriate.
- **Environmental, Social and Governance (ESG) risks**. The extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations. The Trustee's approach to the consideration of ESG risks is set out in further detail below.
- **Climate risk**. The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy. The Trustee's approach to consideration of climate risk is set out in further detail below.

The Trustee also manages the operational risks associated with the Scheme investments through efficient governance arrangements, supported by the Scheme Secretary, investment adviser, custodian and auditor.

Responsible Investment

Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others. The Trustee considers such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers to ensure they take such considerations into account within their decision making.

The Scheme's overall strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect most financially material factors although not the potential systemic impacts of climate change.

Climate risk, sustainability and the management of ESG issues are considered by the Trustee in the development of mandates for the Scheme and, where possible, the Trustee will consider making explicit allowance for such factors in the evolution of its strategy. This may include applying stock or sector exclusions to mandates, investing in tilted or thematically focused mandates and through the selection of its investment managers.

The Trustee has undertaken a climate risk and responsible investment training session from their investment advisor and will continue to engage on this topic.

The Trustee expects its investment managers and buy-in providers to take all financially material factors into account in implementing the Trustee's strategy where relevant and the terms of the mandate permit.

- In passive mandates, the Trustee recognises that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustee accepts that the role of the passive manager is to deliver returns in line with the market and believe this approach is in line with the basis on which its current strategy has been set. The Trustee will review the appropriateness of index benchmarks at least every three years.

- In active mandates, the Trustee recognises that the manager has freedom to exercise discretion as to the choice of assets held. The Trustee expects the manager to take into account all financially material factors in the selection of assets within their portfolios and to be able to demonstrate their approach when challenged.

Within the managed account, the Trustee makes use of the BlackRock Liquid Environmentally Aware Fund which applies environmental and norms-based screening to issuers prior to investment being made.

The Trustee has a directly owned property portfolio and receives regular advice from Osborne King at Investment Committee meetings. The Trustee has a regular dialogue with its advisers to review issues relating to the Scheme and to ensure that risks that may create a liability for the Scheme are dealt with promptly.

Consideration of non-financially material factors in investment arrangements

The Trustee has not imposed any restrictions relating to ESG issues on their investment managers and there are no exclusions applied to investment arrangements based on non-financially material factors. On occasion, the Trustee may take input on companies of concern provided by the sponsor but has determined, at present, that the practicalities of applying exclusions outweigh the impact that may otherwise arise.

Stewardship & Engagement

The Trustee aims to meet with BlackRock on an annual basis. Ahead of each meeting, the Trustee provides their manager with an agenda for discussion, including where appropriate, ESG issues. The manager is challenged both directly by the Trustee and by its investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Within Trustee controlled assets (property), the Trustee engages with and seeks input directly from its advisers on any issues of concern.

The Trustee has adopted a policy of delegating voting decisions on stocks to their Investment Manager (BlackRock) who will exercise the voting rights attached to individual investments on their behalf in accordance with their own house policy.

The Trustee has reviewed the voting policy of BlackRock and has determined that the policy is satisfactory. On an annual basis, the Trustee will request their Investment Manager to provide details of any change in house policy.

The Trustee does not engage directly but believes it appropriate for its investment managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the ongoing appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee separately considers annually any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

The Trustee monitors the manager's voting and engagement activity on a quarterly basis in conjunction with its investment adviser. Where the Trustee deems it appropriate, any issues of concern will be raised with their manager for further explanation.

Additional Voluntary Contributions

The Trustee gives members the opportunity to invest in a range of vehicles at each member's discretion. This facility is currently offered through Standard Life.

Signed for and on behalf of Northern Bank Pension Trust Limited

Trustee Director
Lesley Bourke

Date 10 May 2022

Trustee Director
Paul Alexander

Date 10 May 2022

Appendix 1 – Summary of investment mandates

Asset Class	Manager	Appointed	Performance Target
Equities	BlackRock	01/06/2005	To deliver performance in line with the index
Bonds	BlackRock	01/06/2005	Ascent Life UK Long Dated Corporate Bond Fund & Ascent UK All Stocks Corporate Bond Fund: to outperform benchmark by 1% p.a.
Managed Account	BlackRock	29/07/2020	To manage the Scheme's interest rate and inflation hedging against the liability benchmark to a target hedge ratio of 80% (interest rates) and 70% (inflation).
Property	Trustee Controlled	N/A	To deliver long-term inflation linked income from investment in real estate