Statement of Investment Principles

Introduction

This is the Statement of Investment Principles made by the Trustee of the Northern Bank Pension Scheme ("the Scheme") in accordance with the Pensions (Northern Ireland) Order 1995 (as amended). The Statement, which is dated October 2023, 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 over-riding funding principle for the Scheme is to ensure that there are always sufficient assets of the Scheme to meet 100% of benefits as they fall due for payment to members.

The Trustee believes that these objectives will ensure that the assets are invested in the best interests of the members and beneficiaries of the Scheme. The Trustee does not foresee these objectives giving rise to any conflict with the interests of the members and beneficiaries, but if a potential conflict arose, the Trustee would take steps to ensure that the assets were invested in the sole interest of members and other beneficiaries.

The Trustee has entered into insurance policies with the Prudential Assurance Company Limited ("Prudential") and Aviva Life & Pensions UK Limited ("Aviva") that are expected to secure the benefits of all Scheme members in return for the initial payment of a buy-in premium. Under these policies, Prudential and Aviva make monthly payments to the Scheme to cover benefit payments to members.

Investment Strategy

The Trustee holds three separate buy-in policies with Prudential and Aviva to cover the Scheme's liabilities:

- The first Prudential buy-in 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 50% 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 subsequently adjusted to take account of pensions in payment on 6 October 2021. The Aviva policy represents around 19% of the value of the Scheme's total liabilities.
- The second Prudential buy-in policy covers all members not covered by the two previous insurance policies (i.e., members retiring after 6 October 2021 and all deferred members). This policy represents around 31% of the value of the Scheme's total liabilities.

The Trustee expects the purchase of these bulk annuities, and the resulting monthly payments from Prudential and Aviva, to immunise the Fund from market risks such as credit risk, interest rate risk, inflation risk and longevity risk associated with the Scheme's liabilities.

Choosing Investments

The insurance buy-in policies held with Prudential and Aviva are expected to cover the Scheme's benefit obligations. The Scheme holds residual assets in cash to cover the implementation of GMP equalisation and future Scheme expenses (including the cost of liability data cleansing), and also retains ownership of one direct property which it is intended be sold. A loan is secured against the property which will be repaid following its sale.

Expected return on investments.

The Trustee has entered buy-in contracts with Prudential and Aviva. The policies have not been structured with expected return in mind, but instead aim to match the Scheme's benefit obligations.

Realisation of investment

The buy-in insurance contracts are illiquid. This is recognised by the Trustee as they are not expected to be sold in the future.

Risk

The Trustee has identified and acknowledged the risks inherent in its strategy to secure the Scheme's liabilities with insurers but believes that the policies in place are suitable given the stated investment objectives. A key potential risk relates to the insurance regime – the risk of failure within the UK insurance sector impacting the ability of Prudential and Aviva to meet their obligations under the insurance policies held by the Scheme.

To mitigate against this risk the Trustee commissioned due diligence on these insurers and received professional advice prior to entering the policies. The Scheme is also protected by the reserving requirements and stress testing in place for the insurance sector. The Trustee expects buy-in provider risk to be addressed through the supervisory regime applicable to insurance companies but monitors the monthly payment benefits from the buy-in provider to the Scheme and periodically, at least annually, monitors the financial covenant of the buy-in provider.

Other key risks for the Scheme are listed below:

- **Liquidity Risk**:

  The risk that the Scheme cannot meet its immediate liabilities because it has insufficient liquid assets. Liquidity risk is managed by the Trustee who ensures that sufficient cash balances are available to meet obligations as and when they arise.

- **Funding Risk:**

  All members covered by the insurance contracts continue to be members of the Scheme, and the Trustee continues to have ultimate responsibility for the payment of benefits to these members. The Trustee expects the insurance contracts to fully protect the Scheme against funding risk but there remains a residual risk that a mismatch between payments from the insurer and ongoing benefit payments may arise.

- **Sponsor Risk**:

  This is the risk of the Employer ceasing to exist or having insufficient resources to meet any future obligations to the Scheme, for instance in the unlikely event of an insurer failing to meet its contractual obligations. Since all pension liabilities are now secured through buy-in contracts, Sponsor risk is significantly reduced but remains a risk for the Scheme.

- **Custody Risk:**

  The risk of loss of Scheme assets or a loss of economic rights to Scheme assets, when held in custody or when being traded.

- **Systemic Risk:**

  Systemic risk is a financial risk that poses a threat to financial stability. The possibility of an interlinked and simultaneous financial stress suffered by the government and corporate sectors leading to stress in several asset classes, possibly compounded by financial 'contagion', resulting in a deterioration in the financial health of the insurers may negatively impact the ability of the Scheme to meet its pension obligations.

Responsible Investment

Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors, including Environmental, Social and Governance ("ESG") factors, is relevant at various 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 expects that Prudential and Aviva will take account of all financially material factors, including the potential impact of ESG issues, in the implementation of their mandate.

Given the nature of the insurance contracts, the Scheme Trustee has not made explicit allowance for climate change in framing the strategic asset allocation. The Trustee expects both insurers to actively consider ESG and climate risk factors in their investment decision making.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies. Given that the Scheme's assets are comprised of bulk annuities held with insurers, a single property asset and residual cash, stewardship and voting are now of reduced relevance for the Scheme.

Additional Voluntary Contributions (AVC)

Prior to 30 September 2019, the Scheme provided members with the opportunity to invest in a range of vehicles chosen at each member's discretion. This facility was offered through Standard Life. The Trustee regularly reviews the approach to AVCs to ensure that those members who remain invested with Standard Life get the best value out of these benefits going forward.

Signed for and on behalf of Northern Bank Pension Trust Limited

Trustee Director	Trustee Director
Nick Chadha	Mike Roberts
Date 29 November 2023	Date 29 November 2023