Northern Trust Investor Services Limited

MIFIDPRU 8 Regulatory Disclosures

As of and for the year ended December 31, 2023

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Glossary of Terms

AIF	Alternative Investment Fund
BAU	Business-As-Usual
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EMC	EMEA Executive Management Committee
ERC	EMEA Risk Committee
ERGG	EMEA Remuneration Governance Group
FCA	Financial Conduct Authority
FOR	Fixed Overheads Requirement
GBCRS	Global Business Continuity and Recovery Services
HCCC	Human Capital and Compensation Committee
ICARA	Internal Capital Adequacy and Risk Assessment
IFPR	Investment Firm Prudential Regime
KFR	K-Factor Requirement
LATR	Liquid Assets Threshold Requirement
LTI	Long-Term Incentive
MRFB	Matters Reserved for the Board
MRT	Material Risk Taker
NED	Non-Executive Director
Non-SNI	Non-*'small and non-interconnected'* MIFIDPRU investment firm
NTC	Northern Trust Corporation
NTISL	Northern Trust Investor Services Limited
NTISL Board	NTISL Board of Directors
OFAR	Overall Financial Adequacy Rule
OFTR	Own Funds Threshold Requirement
PRA	Prudential Regulation Authority
RMF	Risk Management Framework
SMCR	Senior Managers and Certification Regime
STI	Short-Term Incentive
TNTC LB	The Northern Trust Company London Branch
UCITS	Undertakings for Collective Investment in Transferable Securities

1 Overview and scope of application

1.1 Investment Firm Prudential Regime

The Investment Firm Prudential Regime (**IFPR**) came into effect on 1 January 2022, replacing the previous Capital Requirements Regulation (**CRR**) regime for UK investment firms. The IFPR is intended to streamline and simplify the prudential requirements for MiFID investment firms that are regulated by the UK Financial Conduct Authority (**FCA**).

Under the FCA's MIFIDPRU Sourcebook, specifically MIFIDPRU 8, Northern Trust Investor Services Limited (**NTISL**) is required to disclose items on the following topics:

- Risk management.
- Governance arrangements.
- Own funds.
- Own funds requirements.
- Remuneration.

This document forms the second set of disclosures under the IFPR, and the first with comparable year-on-year data.

1.2 Scope of application

The scope of these disclosures is to NTISL, which is classified as a non-*'small and non-interconnected'* (**non-SNI**) MIFIDPRU investment firm per MIFIDPRU 1.2 of the FCA Handbook.[1] It is authorised and regulated by the FCA, with a firm reference number of 927658.

NTISL's business strategy comprises three activities: depositary services, transition management services, and own book treasury activities.

Depositary services

NTISL's strategy is based around the development of its business of providing trustee or depositary services to authorised and unauthorised UK Alternative Investment Funds (**AIFs**) and UK Undertakings for Collective Investment in Transferable Securities (**UCITS**).

Transition management services

NTISL provides transition management services to professional clients and eligible counterparties established or domiciled in the UK. The clients are i) existing custody clients of The Northern Trust Company London Branch (**TNTC LB**) or ii) former clients of Northern Trust Global Services SE's UK Branch or iii) have assets held in custody by third party custodians.

To mitigate the risk of any conflict arising between the NTISL Transition Management Services and its UK Depositary Services, NTISL does not offer or provide its Transition Management Services to any of its UK Depositary Services clients. NTISL UK Depositary Services clients have the ability to contract with TNTC LB for any transition management arrangements.

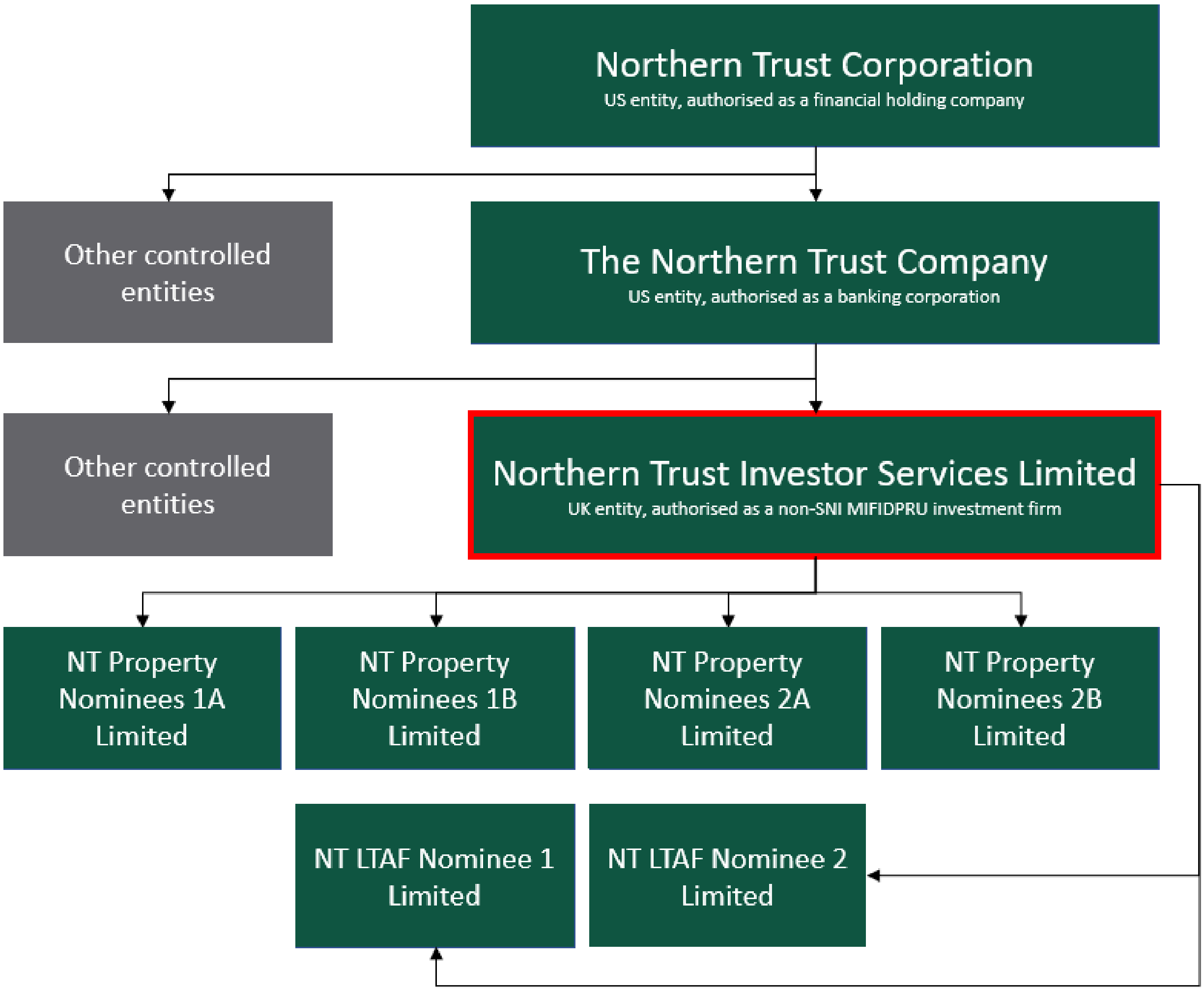
[1] https://www.handbook.fca.org.uk/handbook/MIFIDPRU/1/2.html

Own account treasury activities

NTISL operates a treasury function for the management of its capital resources which both provides an additional source of income for the company and manages the requirements for NTISL's liquid asset requirements.

The ownership structure of NTISL within the Northern Trust group is shown below.

Figure 1: NTISL ownership structure



1.3 Location and frequency of disclosure

These disclosures are updated on an annual basis anchored on NTISL's financial year-end date of 31 December 2023 and published in the Investor Relations section of Northern Trust Corporation's (**NTC's**) website.[2] They are completed in conjunction with NTISL's audited annual financial statements.

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2 https://www.northerntrust.com/united-states/about-us/investor-relations/financial-information-regulatory-disclosures

2 Risk management objectives and policies

2.1 Risk organisation and governance

Risk management is the responsibility of the NTISL Board of Directors. In discharging this responsibility, the Board utilises global and regional risk frameworks as required. Policies and practices are validated and locally approved and the local risk organisation is structured to provide the Board with the necessary risk reporting and oversight to satisfy their responsibilities.

Risk governance is an integral aspect of corporate governance and focuses on the structure, processes and approach to the management of key risks inherent in the business.

NTISL has established a Risk and Audit Committee to provide oversight of risks on behalf of the Board. The Risk and Audit Committee provides a quarterly update to the Board and escalates matters as appropriate.

In addition, a Depositary Management Group oversees the activities, issues and risks relating to operational and business matters of the UK depositary business.

The EMEA Executive Management Committee (**EMC**) has responsibility for risk oversight across all entities within the EMEA region, including NTISL. The EMC oversees the daily management of Northern Trust's businesses in EMEA and its agreed strategy.

The EMC has appointed the EMEA Risk Committee (**ERC**) to assist it in managing all risks. Supporting local governance, the ERC covers all activities conducted within the EMEA region to which the NTISL Risk and Audit Committee provides updates.

NTISL also leverages the following sub-groups of ERC to support its management and oversight of risks:

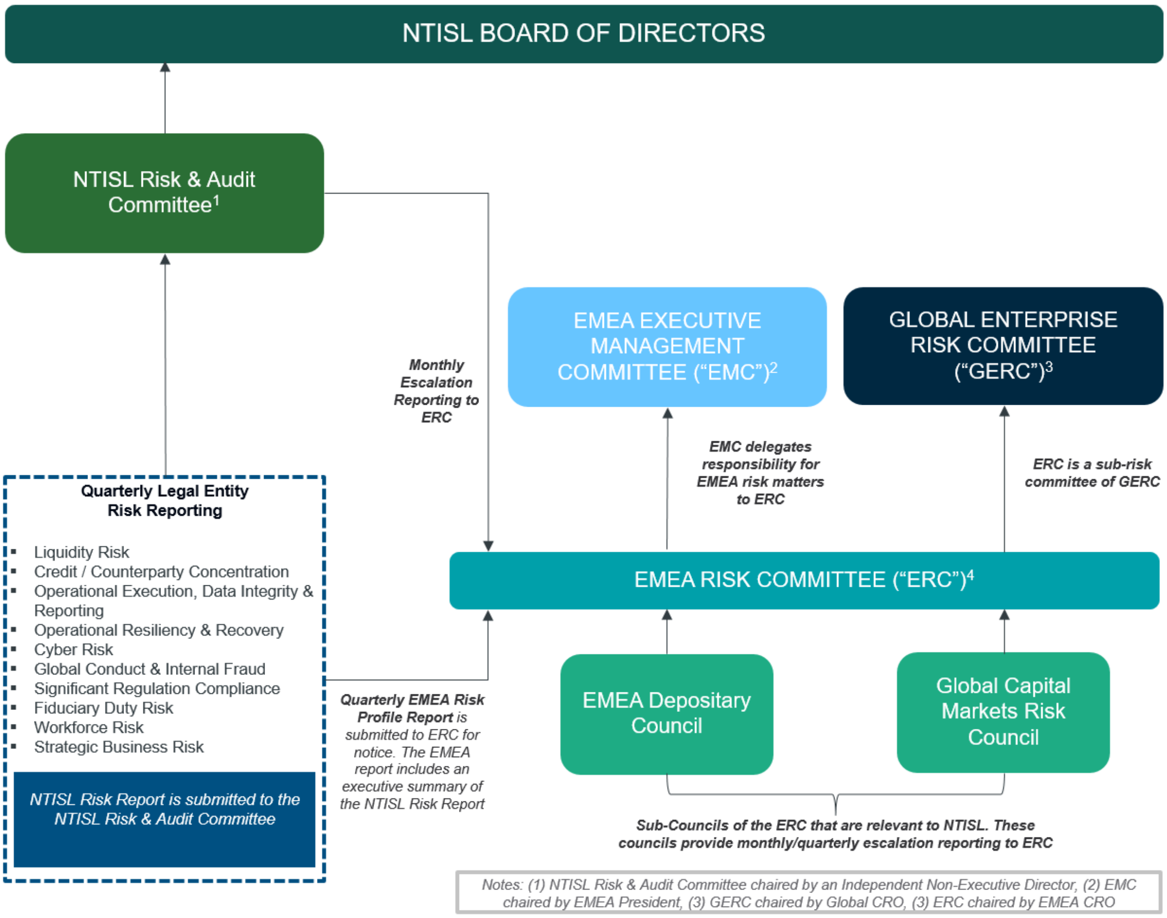
- The EMEA Depositary Council is responsible for matters concerning operational, regulatory and fiduciary risks associated with European depositary services; and
- The Global Capital Markets Risk Council is responsible for risk oversight of Capital Markets activities (including Transitions Management).

In addition, there are six corporate level risk committees that possess a detailed understanding of the risks within their specific areas of responsibility. Collectively these committees review, recommend and approve risk management strategies, policies, and management practices. They also monitor risk performance and the effectiveness of the risk management processes.

NTISL's legal entity risk manager holds the role of Chief Risk Officer (**CRO**) (SMF4) pursuant to the FCA's designated senior management functions.

The following graphic illustrates the regional risk governance structure supporting NTISL:

Figure 2: NTISL risk governance



As part of the ongoing operation of the Risk Management Framework (**RMF**), NTISL employs a *"three lines of defence"* model. The responsibilities across the three lines of defence are fundamental to the design and implementation of the RMF and taken together establish an appropriate operating model to control risk taking.

The first line of defence is accountable and responsible for identifying, measuring, controlling and monitoring risks associated with its activities either individually or with the assistance of the second line of defence. The first line of defence is typically engaged in activities designed to generate revenue, reduce expense, provide operational support for delivery of products or services to clients, and provide technology services.

The second line of defence is accountable and responsible for identifying, measuring, monitoring, and controlling risk in aggregate. The risk and compliance practices, as independent functions separate and distinct from the business units, are considered NTISL's second line of defence.

The third line of defence is accountable and responsible for independently assessing the design and ongoing effectiveness of governance, risk management, and internal controls. Audit Services is an independent control function that assesses and validates controls within the RMF.

Northern Trust's approach to Risk Appetite is based on 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 inherent risks faced by Northern Trust.

For capital purposes, Northern Trust considers the following risk categories: credit; market; liquidity; operational; strategic; fiduciary; and compliance.

2.2 Principal risks and potential harms

The risk profile of NTISL is determined through a point in time assessment of inherent and residual risks across the major risk categories and subcategories listed in the Northern Trust Risk Universe. The risk categories include credit risk, market and liquidity risk, strategic risk, operational risk, fiduciary risk and compliance risk.

Alongside the existing process to identify and mitigate harm to firm, the IFPR rules now require firms to consider and manage the potential harms to clients and markets too. NTISL focuses on and evaluates its associated risks through the lens of these harms. NTISL has endeavoured to embed the three harms concept within the RMF to ensure at a minimum these are considered within the processes of all main inputs to the Internal Capital and Risk Assessment (**ICARA**). The ICARA is described further in Section 5.2.

The following sub-sections identify the principal risks facing NTISL and the associated potential for material harms.

NTISL maintains a suite of quantitative and qualitative risk measures (legal entity specific and group based) which can be mapped to the risk categories below. These measures are monitored and reported as part of the entity's quarterly risk report which is submitted to the NTISL Board.

2.2.1 Strategic risk

Strategic risk is the risk of loss from the adverse effects of business decisions, or the improper implementation of those decisions, and the risk that internal or external forces impede the long-term plans of the business for growth, profitability and stability. If such events were to crystallise for NTISL, the most material harms will be to the firm itself and its clients.

Strategic risk is managed by the NTISL Board. NTISL Management draws on the NTISL legal entity risk reporting, the EMEA and Corporate risk governance structure, as well as risk management programmes to oversee strategic risk.

From a Northern Trust Group perspective, which NTISL is part of, group strategic risk is managed by NTC's Board of Directors, NTC's Chief Executive Officer (**CEO**) and senior management, including the Global Enterprise Risk Committee, support the NTISL Board in the performance of its functions.

2.2.2 Operational risk

Northern Trust defines operational risk as the risk of loss from inadequate or failed internal processes, human factors and systems or from external events. If such events were to crystallise for NTISL, the most material harms will be to the firm itself, clients and market. The entity's objective is to manage operational risk so as to balance the avoidance of financial losses and reputational damage with overall cost effectiveness.

For capital purposes, Northern Trust considers operational risk to include compliance and fiduciary risk, although each of these risks are governed and managed separately. Subsequent to this, NTISL identifies business disruption and system failures (operational risk), administration risk (fiduciary risk) and regulatory risk (compliance risk) as the key operational risks facing the entity. Administration risk and regulatory risk are covered under 2.2.3 and 2.2.4 respectively.

For NTISL, business disruption (technology risk and business continuity) and external fraud represent the most significant inherent risk components of operational risk.

Business disruption and system failure risk is managed and overseen by Corporate Information Security and Technology Risk Management, and Global Business Continuity and Recovery Services (**GBCRS**):

- Corporate Information Security and Technology Risk Management identifies and analyses both day-to-day technology risks and longer-term strategic risks as well as devoting considerable time to the potential risks posed by the threat of cyber-attack, covering system security, availability and performance and system development and implementation.
- GBCRS help to assess and coordinate incident responses and set standards for the content and testing of disaster recovery and business continuity plans.

Line managers have the primary responsibility for managing the inherent risks of all NTISL activities under their control. As part of Northern Trust's operational risk management, various techniques are employed to identify current risks. A reconciliation and exception management policy enables potential risk to be identified in a timely manner. NTISL management is of the view that NTISL's inherent operational risk is mitigated by Northern Trust's operational risk framework.

2.2.3 Fiduciary risk

Fiduciary risks arise 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.

Administration risk has been identified as a key operational risk for NTISL and if this were to crystallise, the most material harms will be to the firm itself, clients and market.

As a depositary, under the Alternative Investment Fund Managers Directive/UCITS, NTISL is responsible for the safe keeping of fund assets and could be subject to liability for a permanent loss of assets. The loss could crystallise as a result of direct liability risk and/or fault-based liability risk.

NTISL is also subject to depositary oversight risk should the depositary fail to provide adequate oversight of the activities of the fund. In the event that this leads to a permanent loss of assets for clients, this could potentially result in a legal liability for the depositary and the entity facing reputational damage.

The EMEA Depositary Council supports NTISL in its oversight and monitoring of fiduciary administration risk.

2.2.4 Compliance risk

Compliance risk is defined as 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 organisations applicable to its activities. Regulatory and financial crime risk are the two sub-components of compliance risk:

- Regulatory risk arises from the failure to comply with either prudential or business conduct regulatory requirements. Conduct risk incorporates the requirements that seek to protect the interests of customers and the integrity of the market.

- Financial crime risk is the 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 and conducted using the products, services or accounts of the institution.

  A failure to independently assess the risk of money laundering, sanctions violations, fraud, insider dealing, and theft in relation to products, services, clients, vendors, etc is a threat that can result in reputational, financial and regulatory risks for the entity.

Regulatory risk has been identified as a key operational risk facing NTISL. A failure to manage this can impact NTISL's ability to operate and service its clients effectively. If such risk events were to crystallise, the most material harms will be to the firm itself and clients.

The compliance risks facing NTISL and the underlying processes and controls to manage said risks are assessed under Northern Trust's compliance risk program. An annual compliance risk assessment is completed for the entity where all significant and applicable rules, corresponding controls, are evaluated in accordance with a global methodology that has been created by Northern Trust Global Compliance.

2.2.5 Other risks

2.2.5.1 Liquidity risk

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

Under Northern Trust's risk framework, liquidity risk is governed by first and second line of defence committees, namely the Asset and Liability Management Policy Committee and the Market and Liquidity Risk Committee respectively. NTISL operates within this framework. Assessment and approval of the systems and controls used to manage liquidity risk is provided by the NTISL Risk and Audit Committee. As part of this framework, the Head of International Liquidity Management compiles an annual Liquidity Risk Assessment for the review and approval of the NTISL Risk and Audit Committee.

Business-as-usual (**BAU**) liquidity outflows take the form of payment of expenses, typically on an intercompany basis. Stressed liquidity requirements would be driven by the need to fund large unexpected operational losses or to provide temporary funding for the replacement of lost client assets until such time as the permanence of such loss has been determined.

The NTISL Liquidity and Own Funds Investment Policy sets the principles and guidelines for NTISL to govern the processes and activities for the management of its liquidity position including the investment of its Own Funds. The policy is central to the firm's management of liquidity at a level that allows it to meet its balance sheet and contingent liability cash flow obligations when due, even during a market-wide and/or firm-specific stress event.

Liquidity risk has not been identified as a material risk for NTISL.

2.2.5.2 Group risk

NTISL also considers group risk when performing its ICARA risk assessment. Given the global nature of Northern Trust's operating model, there are a number of dependencies on other legal entities within the Northern Trust Corporation to support day-to-day business activity.

2.2.5.3 Concentration Risk

Given the nature of its business model and the clients it services, NTISL has determined that concentration risk arises from the following sources: concentration in clients/products, non-cash credit exposures, NTISL's own cash deposits and in earnings.

Given the simple composition of NTISL's balance sheet, credit exposures are generally limited to intercompany receivable amounts. The control in place for these exposures is to ensure settlement within standard terms. Historically these receivables have been generally settled on a monthly basis as part of the overall Northern Trust intercompany settlement process.

In terms of own cash deposits, NTISL holds an amount equal to at least the net cost of winding down, in at least one bank account external to the Northern Trust Group or in the form of securities. While there is inherent concentration in placing funds within the Northern Trust group, the separate wind-down requirement ensures that in a worst case scenario, there are sufficient funds and/or marketable assets available outside of the wider Northern Trust group to generate liquidity. This balance is monitored monthly as part of the established treasury monitoring process of liquid assets.

Earnings concentration is monitored through a revenue concentration index that has been developed in order to monitor the evolution of revenue concentration over time. Additional reporting on top 10 clients is provided to the NTISL Board which details any client or product concentrations.

Regulatory reporting on concentration risk (MIF004 return) is submitted to the FCA on a quarterly basis so as to allow the FCA oversight of the following types of concentrations in relation to NTISL:

- Top five largest exposures (excl. intergroup exposures);
- Intragroup exposures only;
- Location of NTISL's own cash balances and the percentage of holdings at a particular institution; and
- Top five revenue generating clients and the percentage of total revenue earned from each client.

Reporting on the location of client money as part of the MIF004 return is not applicable to NTISL due to it not holding client money.

2.3 Risk Appetite

Risk Appetite is defined as the aggregate level and types of risk the NTISL Board and senior management are willing to assume to achieve the entity's strategic objectives and business plan, consistent with prudent management of risk and applicable capital, liquidity and regulatory requirements. It includes consideration of the likelihood and impact of risks, using both monetary loss and non-financial threshold and guideline levels that are used as triggers for escalation to senior management, appropriate risk committees and the NTISL Board.

NTISL's Risk Appetite Statement reflects the expectation that risk is consciously considered as part of day-to-day activities and strategic decisions. NTISL establishes its Risk Appetite Statement by Risk Themes. Each theme is supported by a series of risk measures which are reported on as part of the quarterly NTISL Risk Report.

The NTISL Risk Appetite Statement is reviewed and approved on at least an annual basis by the NTISL Board.

2.4 Adequacy of risk management arrangements

The nature of the business operating model employed by NTISL results in residual exposure to credit, market, liquidity, strategic risk and operational risk.

Capital is set against these risks and allocated according to regulatory requirements and the ICARA process.

The NTISL Board is satisfied that risk management arrangements are aligned with the risk profile and strategy of the business. The Board also confirms that the disclosures contained within this document accurately reflect the risk profile of the business based on the activities it undertakes.

3 Governance arrangements

3.1 Effective implementation of governance arrangements

It is a requirement for a firm to ensure that the management body, the NTISL Board of Directors (**the NTISL Board**), defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the firm, including the segregation of duties in the organisation and the prevention of conflicts of interest, and in a manner that promotes the integrity of the market and the interests of clients.

In order for these responsibilities to be undertaken, the NTISL Board has Matters Reserved for the Board (**MRFB**) in place which provides the framework to ensure that it:

- Has overall responsibility for the firm;
- Approves and oversees implementation of the strategic objectives, risk strategy and internal governance of NTISL;
- Ensures the integrity of the accounting and financial reporting systems of NTISL, including financial and operational controls and compliance with the regulatory system;
- Oversees the process of disclosure and communications;
- Has responsibility for providing effective oversight of senior management;
- Monitors and periodically assesses the following:
    - The adequacy and implementation of the strategic objectives of NTISL when servicing its clients' needs;
    - The effectiveness of its governance arrangements;
    - The adequacy of policies relating to the provision of services to clients, taking appropriate steps to address any deficiencies; and
- Has adequate access to information and documents which are needed to oversee and monitor management decision-making.

Evidence of the discharge of these responsibilities is found within the NTISL Board Packs distributed to members of the NTISL Board and formal minutes taken at each meeting.

The apportionment of responsibilities and governance structure for the entity is outlined in the NTISL Management Responsibilities Map maintained internally.

The NTISL Board generally meets on a quarterly basis and on ad hoc occasions as required.

Information for dealing with conflicts of interest is set out in the EMEA Client Conflicts of Interest and Inducements Policy document which is applicable to all regulated Northern Trust EMEA entities and approved by the ERC and all Boards/Management Committees of the EMEA entities covered by the policy, including the NTISL Board. The policy sets out how NTISL seeks to prevent and deal with conflicts of interest if they arise.

NTISL is classified as an enhanced solo regulated firm under the Senior Managers and Certification Regime (**SMCR**).

To ensure the members of the NTISL Board are competent to carry out their duties and meet the requirements to manage NTISL on a sound and prudent basis, an annual fit and proper assessment under the SMCR is undertaken to take reasonable steps to ascertain that each member:

- Is of sufficiently good repute;
- Possesses sufficient knowledge, skills and experience to perform their duties;
- Possesses adequate knowledge, skills and experience to understand the firm's activities, including the main risks;
- Commits sufficient time to perform their functions in the firm; and
- Acts with honesty and integrity.

Additionally, the NTISL Board undergoes an annual board performance effectiveness review and an annual collective suitability assessment to ensure the board and its committees' governance operates effectively and the composition of the board and its committees provides for:

- Appropriate knowledge, skills and experience to discharge the duties conferred upon the board and its committees as outlined in the MRFB and committees' terms of reference;
- Independence of mind to effectively assess and challenge the decisions of senior management; and
- Effective oversight to monitor management decision-making.

3.2 NTISL Board Directorships

All executive directors of the NTISL Board are required to obtain approval for any directorships held in organisations external to Northern Trust. Non-executive directors (**NEDs**) are required to avoid taking up any appointments during their tenure which would give rise to a conflict of interest. During the 2023 performance year, two non-executive directors of the NTISL Board held a total of two directorships for organisations outside of Northern Trust.

Northern Trust's commitment to diversity includes members of the management body. For instance, in the recruitment of these roles, the shortlist should encompass at least one woman or ethnic minority candidate.

All candidates considered for a position within the management body are assessed against the same criteria of key accountabilities, that are driven by respective job descriptions validated by the Head of HR, International and Shared Services. In addition, all candidates are assessed against competencies expected by the FCA (and Prudential Regulation Authority (**PRA**) where applicable) (i.e. Risk Management and Control, Market Knowledge, Business Strategy and Business Model, Financial Analysis and Control, Governance Oversights and Controls, Regulatory Framework).

Per MIFIDPR 8.3.1R(2), NTISL is required to disclose the number of directorships held by each member of the NTISL Board. This does not include any directorships held within the Northern Trust Corporation group of companies nor directorships held in organisations which do not pursue predominantly commercial objectives.

This information is presented in the table below:

Table 1: NTISL director external directorships as at 31 December 2023

Director name	Senior Management Function	No. of Directorships: Executive	No. of Directorships: Non-executive
Carolyn Aitchison	SMF10 Chair of the Risk Committee SMF11 Chair of the Audit Committee SMF12 Chair of the Remuneration Committee	0	1
Darren Banks	SMF3 Executive Director SMF24 Chief Operations	0	0
David Williams	SMF1 Chief Executive SMF3 Executive Director	0	0
John Davie	SMF2 Chief Finance SMF3 Executive Director	0	0
John Rowland	SMF9 Chair of the Governing Body SMF13 Chair of the Nominations Committee	0	0
Lucien Fletcher	SMF3 Executive Director SMF4 Chief Risk	0	0
Teresa Parker	N/A – Notified Non-Executive Director	0	1

The following changes to the Board occurred during 2023:

- William Guy Gibson resigned as Director on 31 March 2023.

3.3 Policy promoting diversity on the NTISL Board

As long-standing core ethical values, diversity, equity and inclusion are invaluable to Northern Trust's business success, Northern Trust recognises that the broad array of perspectives that result from acquiring, developing and retaining a globally diverse workforce promotes innovation and helps it succeed as a business enterprise and community advocate.

Northern Trust's focus on diversity, equity and inclusion helps it provide unrivalled service to clients and create a healthy, thriving workplace environment for employees from diverse demographic groups, leadership styles and skill sets. Northern Trust celebrates differences, whether in thought or background, and educates its employees about those differences throughout the year with events, community outreach and connections to professional organisations.

Northern Trust operates a policy and practice at group level of providing equal employment opportunities to all employees and applicants. Northern Trust expressly prohibits any discriminatory practice based on age, race, religion, belief, gender, national origin, citizenship status, disability, marital status, pregnancy, sexual orientation, gender identity, gender expression, or any other legally protected status. All employment decisions are made in a non-discriminatory manner. This includes human resources' decisions relating to compensation, recruitment, redundancy, termination, terms and conditions of employment, transfers, appraisals and promotions, conduct at work, disciplinary and grievance procedures and access to learning and development. Employees are required to ensure that they do not, by their own actions, behaviour or attitudes, directly, indirectly, intentionally or otherwise discriminate against job applicants, employees, clients, vendors, contractors and temporary workers.

Northern Trust also operates a UK Board Diversity Policy pursuant to which it is committed to diversity, equity and inclusion in respect of appointments of both external Independent Non-Executive Directors and internal employee Board members to attract a broad set of qualities and competencies. Before any appointment is made by the Board, Northern Trust evaluates the balance of skills, knowledge, experience and diversity on the Board currently.

When Board positions become vacant Northern Trust actively encourages and seeks out candidates from a broad and diverse set of applicants and consider the diversity balance of the Board as part of the decision-making criteria.

Northern Trust regularly reviews its process for the selection and appointment of Board members and make changes as necessary to ensure the leadership needs of the organisation, both executive and non-executive are being met.

Furthermore, to support the promotion of a diverse board and workforce, Northern Trust is a member/charter holder of the following groups and initiatives:

- Women in Finance Charter;
- Race at Work Charter;
- Tech Talent Charter;
- Sustainable Trading Network; and
- Diversity Project UK.

In line with its commitments under the HM Treasury Women in Finance Charter, Northern Trust also sets a recommended gender goal of 38% female for its UK Boards. Northern Trust is working hard to improve its diverse talent's readiness for Board positions, and in 2023, a project was set up to enhance the communication and cohesion between various parties to streamline Board appointment process. As part of this, we have purposefully integrated the Board appointment process, talent pipelining and Board readiness training and development into existing HR practices.

3.4 Risk Committee

MIFIDPRU 7.3.1R requires a firm to establish a risk committee if it exceeds thresholds in relation to the value of on-balance sheet assets and off-balance sheet items (including off-balance sheet considerations), and where necessary, the size of the firm's on- and off-balance sheet trading book and derivative positions.

NTISL does not meet the thresholds required to establish a risk committee. However, as set out in Section 2, the NTISL Board has established a Board Audit and Risk Committee which is a sub-committee of the NTISL Board to provide oversight of risks on behalf of the Board.

4 Own funds

4.1 Composition of own funds

Own funds of NTISL are made up solely of Common Equity Tier 1 (**CET1**) capital instruments. The table below sets out a breakdown of the composition of own funds.

Table 2: OF1 - Composition of regulatory own funds

	Item	Amount (£000)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	**151,643**	
2	**TIER 1 CAPITAL**	**151,643**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**151,643**	
4	Fully paid-up capital instruments	140,000	Financial Statements - Note 19
5	Share premium	0	
6	Retained earnings	11,643	Financial Statements - Note 20
7	Accumulated other comprehensive income	0	
8	Other reserves	0	
9	Adjustments to CET1 due to prudential filters	0	
10	Other funds	0	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
19	CET1: Other capital elements, deductions and adjustments	0	
20	**ADDITIONAL TIER 1 CAPITAL**	**0**	
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions and adjustments	0	
25	**TIER 2 CAPITAL**	**0**	
26	Fully paid up, directly issued capital instruments	0	
27	Share premium	0	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
29	Tier 2: Other capital elements, deductions and adjustments	0	

4.2 Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The table below shows a reconciliation of regulatory own funds in Table 2 above to the balance sheet in the audited financial statements, where assets and liabilities have been broken down by asset and liability classes respectively.

Table 3: OF2 - Reconciliation of regulatory own funds to the audited financial statements

		a	b	c
		Balance sheet as in published/audited financial statements (£000)	Under regulatory scope of consolidation	Cross reference to template OF1
		As at year ending 31 December 2023	As at year ending 31 December 2023	
Assets				
1	Debt investment securities	79,040		
2	Loans and advances to banks	43,564		
3	Cash and cash equivalents	20,540		
4	Debtors	17,717		
5	Deferred costs	77		
	Total Assets	**160,938**		
Liabilities				
1	Creditors: amounts falling due within one year	9,295		
	Total Liabilities	**9,295**		
Shareholders' Equity				
1	Called up share capital	140,000		Item 4
2	Profit and loss account	11,644		Item 6
	Total Shareholders' equity	**151,644**		

4.3 Main features of own instruments issued by the firm

The table below provides information on the share instruments issued by NTISL. All instruments qualify as CET1 capital and no Additional Tier 1 capital or Tier 2 capital has been issued. All shares are owned by the parent of NTISL, The Northern Trust Company.

Table 4: Main features of own instruments issued by NTISL

Type of placement	Private placement
Instrument type	Ordinary shares
Amount recognised as regulatory capital	£140,000,000
Nominal amount of instrument	£140,000,000
Issue price	£1 each
Dividend payments	Fully discretionary

5 Own funds requirements

5.1 Own funds requirements

As a non-SNI MIFIDPRU investment firm, NTISL must maintain own funds that are at least equal to its own funds requirement at all times, with the own funds requirement being the highest of:

- The permanent minimum capital requirement of £4,000,000;
- The fixed overheads requirement (**FOR**); and
- The K-factor requirement (**KFR**).

NTISL's own funds requirement is equal to its FOR as this is greater than both its total KFR and permanent minimum capital requirement.

The NTISL own funds requirement as at 31 December 2023 is set out below:

Table 5: OFR1 - MIFIDPRU 4.3 compliance

Own Funds Requirement item		£000		*£000*
		2023		*2022*
Permanent minimum capital requirement		**4,000**		***4,000***
Fixed overheads requirement		**9,320**		***9,184***
Sum of K-AUM, K-CMH & K-ASA requirements	0		*0*	
Sum of K-COH & K-DTF requirements	11		*5*	
Sum of K-NPR, K-CMG, K-TCD & K-CON requirements	0		*0*	
Total KFR		**11**		***5***
Binding requirement		**9,320**		***9,184***

5.2 Approach to assessing adequacy of own funds

NTISL is required to comply with the Overall Financial Adequacy Rule (**OFAR**) which is defined as the following in the FCA's Handbook Chapter MIFIDPRU 7.4.7R:

"A firm must, at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

a) The firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
b) The firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants."

In order to ensure compliance with the OFAR, NTISL operates an ICARA process. The ICARA process is the collective term for the internal systems and controls that NTISL operates to identify and manage potential material harms that may arise from the operation of its business, and to ensure that its operations can be wound down in an orderly manner.

The ICARA is undertaken at least once every 12 months.

5.2.1 Business operations

The NTISL RMF identifies and assesses the material potential harms inherent within NTISL business operations and the extent that current processes and controls serve to mitigate the risk of harm occurring across clients, counterparties, the market and the firm itself. Where these harms cannot be mitigated fully, a further assessment has been completed against the adequacy of the calculated own funds requirement (Section 5.1 of this document).

This assessment is input into a statistical model which also considers all of the firm's previous loss history, probability and impact of the key risk scenarios used. The output of this is compared to the own funds requirement to assess the adequacy of the amount relative to the harm inherent in business operations. Where this process identifies an increased requirement above the calculated own funds requirement, additional own funds are held to mitigate the identified material potential harms.

Where this process identifies an increased requirement above the calculated own funds requirement, additional own funds are held to mitigate the identified material potential harms.

5.2.2 Wind-down

NTISL undertakes a wind-down planning process which ensures sufficient own funds are held to undertake an orderly wind-down in the rare event that one is required. This process covers the following:

- An assessment of the scenarios which may cause NTISL to wind down;
- Reporting of indicators of a wind-down scenario occurring;
- Assessment of harm to key stakeholders of NTISL winding down; and
- Process to wind-down.

Based on the actions above, a quantitative assessment is done to determine the amount of own funds (and liquid assets) required to wind-down the business, minimising the risk of harm to the stakeholders identified as part of the assessment.

5.2.3 Key conclusions

As part of the ICARA process, NTISL has established its own funds threshold requirement (**OFTR**) and its liquid assets threshold requirement (**LATR**) which set out the minimum own funds and liquid assets required to be held by the firm to meet regulatory requirements.

Based on the ICARA, the NTISL Board has determined that sufficient own funds and liquid assets are held to meet the OFTR and LATR and considers that NTISL complies with the OFAR.

6 Remuneration policy and practices

6.1 Qualitative disclosures

The NTC Human Capital and Compensation Committee (**HCCC**) is a committee of the Board of the parent company headquartered in Chicago IL, USA. The HCCC has primary responsibility for ensuring that compensation programs align with the organisation's philosophy and objectives, including oversight of the processes through which the company reviews its incentive plans within the context of business risk mitigation.

The HCCC consists of independent NTC non-executive directors and has Meridian Compensation Partners as its independent consultant. The HCCC confers with its independent compensation consultant to ensure that decisions and actions are consistent with stockholders' long-term interests and compensation-related best practices within the financial services industry, including effective risk management within the compensation framework.

In 2021, a Remuneration Committee was established for NTISL, consisting of two independent non-executive directors. This committee ensures remuneration policies and processes applicable to NTISL are operated in line with the requirements of the MIFIDPRU Remuneration Code and make recommendations to the NTISL Board.

A UK-based EMEA Remuneration Governance Group (**ERGG**), operates to monitor and implement the EMEA regulatory compensation requirements and comprises the following individuals:

- Head of HR, International and Shared Services (chair);
- International Chief Finance Officer (**CFO**);
- International CRO;
- International Chief Compliance Officer; and
- Manager, Business Unit Risk, Northern Trust Asset Management().

The following standing attendees are also present:

- Regional Executive (President Northern Trust EMEA);
- Deputy General Counsel;
- Head of Compensation, EMEA; and
- Senior Regulatory Compensation Consultant, EMEA.

The ERGG has oversight over remuneration regulations across EMEA to ensure there is consistency and balance in the policies and guidelines adopted by the EMEA regulated entities.

NTC's Total Compensation Policy applies to all employees globally. An addendum specifically related to EU and UK requirements exists for all partners operating in the relevant regulated countries.

Employees whose professional activities have a material impact on a regulated entity's risk profile are classified as performing Material Risk Taker (**MRT**) roles and have been categorised as:

- **Senior Manager MRT** – Employees who are registered with the FCA (and/or PRA) as Control Functions and/or members of governing bodies and/or heads of significant business groups;
- **Standard MRT** – Employees that could have the ability to impact the risk profile of NTISL. However these all operate within appropriate governance structures and under delegated authorised limits from Senior Managers.

For MRTs aligned to more than one Northern Trust Regulated Entity (i.e. Group MRT), a 'primary regulator' will be identified, and the full set of remuneration rules prescribed by that regulator will apply. Under IFPR, there is a requirement for the most stringent provision across all respective remuneration codes to be applied.

Remuneration design and structure at NTC focuses on all elements of total compensation and differentiation to avoid entitlement and to develop a high-performance culture. In addition to fixed remuneration, NTC offers variable remuneration which includes short-term and long-term incentives where appropriate. The HCCC reviews the Total Compensation Policy on an annual basis. Risk and Compliance employees have incentive awards funded from the Corporate Risk and Compliance pool and are not impacted by the business funding.

At the start of the performance year, the NTC Board of Directors approves a Profit Plan which includes detail on projected performance outlook and competitive requirements for incentive compensation. The Profit Plan determination includes risk considerations including reserves for credit and operational losses and other risk assessments. The HCCC then reviews the initial cash incentive pool accrual at the corporate level based on a competitive target percentage range of the pre-tax income projections included in the Profit Plan.

The initial accrual level takes into consideration financial performance factors including affordability and risk considerations. The corporate cash incentive pool is funded based on the actual performance of the Corporation as measured by pre-tax income in early December, with the ability to add or claw funding back post-performance period when the actuals have been determined.

NTC's CRO participates in funding and allocation discussions that inform the recommendation to the HCCC of corporate pool funding level as well as Business Unit allocation. Corporate Risk Management has developed a process to track and consolidate risk events and key metrics for the plan year, and this information is provided to Business Unit leaders and managers for incorporation in performance review and throughout the plan year. The CRO uses the Enterprise and Business Unit Risk Performance Scorecards and any known Significant Risk Outcomes to inform recommendations to the HCCC regarding any risk adjustments to the overall funding or business unit allocations. The CRO participates in quarterly discussions with the CFO and Chief Human Resources Officer regarding the financial performance as well as consideration of risk factors such as credit loss reserves and operational losses. Once the incentive allocation to Business Units has been determined, the Business Unit President reviews financial performance and any risk factors to determine allocation of the incentive pool.

Annual review processes for all partners include performance expectations related to the monitoring and mitigation of risk. In completing the annual performance evaluation and compensation planning, managers receive information on how to incorporate appropriate performance expectations relative to the management of risk into the review process. As part of the annual salary review and incentive process, managers recommend total compensation reflecting their discretionary assessment of specific objective and subjective factors including performance against risk expectations.

When choosing appropriate measures for team and individual goals, these goals are aligned with those of the business. As these business and financial goals are achieved, partners are rewarded accordingly to reinforce the value of their contribution. To determine an individual's pay and incentive allocation, managers will take into consideration discretionary assessment of specific objective and subjective factors such as:

- Corporate and business unit performance;
- Performance within a standard risk expectation for all employees;
- Prior and expected individual performance and long-term impact; and
- Teamwork and individual contributions.

All employees within NTC are eligible for an incentive payment subject to performance. Performance factors can result in no increase to base pay and/or a zero cash incentive award for a specific performance period.

The short-term incentive (**STI**) and long-term incentive (**LTI**) mix was determined for partners according to a fixed structure based on the total incentive award amount. Incentive splits for MRTs and other regulated roles was administered according to regulatory requirements. Incentive compensation for MRTs is also subject to the NTC Policy on Recoupment and UK and Luxembourg Malus and Clawback Policy. The purpose of these policies is to ensure that there is appropriate alignment between risk and individual reward, to discourage excessive risk-taking, short-term thinking and encourage more effective risk management. Malus and clawback may be applied to reflect adjustments for performance.

Under the IFPR, there is no prescriptive bonus cap. As NTISL is classified as a non-SNI firm, there is a requirement to set an appropriate ratio between fixed and variable pay for MRTs. As these regulations do not specify what makes an 'appropriate' ratio, firms are left to use appropriate discretion.

The in-scope legal entity(s) Remuneration Committees have determined three separate variable to fixed pay ratios that will apply to MRTs subject to the IFPR MIFIDPRU Remuneration Code.

The following documents are designed to comply with all the requirements of the Remuneration Code:

- Guarantees and Buy-out Guidelines;
- Retention and Recognition Award Guidelines;
- Northern Trust Policy on Recoupment;
- Total Compensation Policy Statement; and
- Malus and Clawback Policy.

6.2 Quantitative disclosures

Fixed remuneration consists of base salaries, benefits, pension and cash allowances. Variable remuneration can consist of a combination of STI (Cash) and LTI (Restricted Stock Units). Off-cycle awards such as guarantee, buy-out, retention, recognition and severance awards also form part of variable remuneration for bonus cap calculations. Where applicable, these awards have been included as part of aggregate variable remuneration.

The following disclosures relate to NTISL MRTs and all other staff. In 2023, there were twenty MRTs. The aggregate remuneration details in respect of these MRTs and all other staff is shown below.

Table 6: NTISL staff remuneration breakdown

Role	Fixed remuneration (£m)	Variable remuneration (£m)	Total remuneration (£m)
Senior Management[3]	4.6	2.9	7.5
Other MRTs	1.7	1.5	3.2
All other staff	2.0	0.2	2.2
Total	**8.3**	**4.5**	**12.8**

[3] For the purposes of these MIFIDPRU disclosures, 'Senior Management' includes those categorised as Senior Manager MRTs

There were no amounts of guaranteed variable remuneration rewards made during the financial year to senior management and MRTs.

There were no severance payments made during the financial year to senior management and MRTs.

The information above includes remuneration for MRTs whose responsibilities also cover:

- Northern Trust Global Services SE[4]: ten employees
- Northern Trust Securities LLP: eight employees
- Northern Trust Global Investments Limited: six employees
- The Northern Trust Corporation London Branch: fifteen employees

[4] Includes Northern Trust Global Services SE branches.