Northern Trust Global Investments Limited

MIFIDPRU 8 Regulatory Disclosures

As of and for the year ended December 31, 2022

NTAC:3NS-20

NORTHERN TRUST

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Glossary of Terms

AMRC	Asset Management Risk Committee
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EPC	EMEA prudential 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
NTAM	Northern Trust Asset Management
NTAM EMEA BRC	NTAM EMEA Business Risk Committee
NTC	Northern Trust Corporation
NTGIL	Northern Trust Global Investments Limited
NTGIL Board	NTGILL 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	The Northern Trust Company

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 Global Investments Limited ('**NTGIL**') is required to disclose information on the following topics:

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

This document forms the first set of disclosures applicable under the IFPR.

1.2 Scope of application

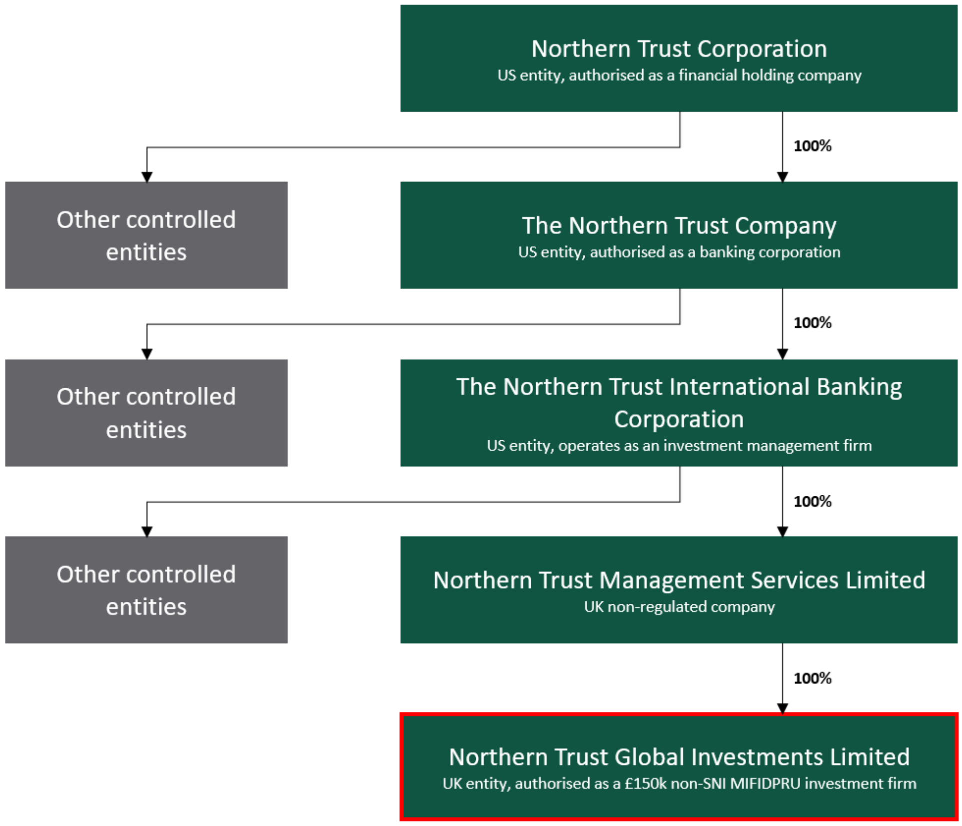
The scope of these disclosures is NTGIL, which is classified as a non-small and non-interconnected ('**non-SNI**') MIFIDPRU investment firm per MIFIDPRU 1.2 of the FCA Handbook.[1] It is authorised and regulated by the FCA, with a firm reference number of 191916.

NTGIL is a subsidiary of Northern Trust Management Services Limited and is a legal entity undertaking the regulated activity of providing investment management services to clients. Its core activities comprise the distribution and provision of investment management solutions for global investors. NTGIL forms an active part in delivering Northern Trust Asset Management's ('**NTAM's**') EMEA strategy and the NTGIL Board is responsible for implementing that strategy. NTGIL acts as investment manager to multiple UCITS and non-UCITS funds domiciled in the Republic of Ireland, the Netherlands and the Cayman Islands, as well as to a number of segregated mandate clients.

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

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

Figure 1: NTGIL ownership structure



1.3 Location and frequency of disclosure

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

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

2 Risk management objectives and policies

2.1 Overview

The NTGIL Board of Directors (‘**the NTGIL Board**’) has primary responsibility for the oversight of risk management within the firm. The NTGIL Board is responsible for monitoring compliance with the firm’s and Northern Trust Group’s Risk Management Framework (‘**RMF**’) in relation to risks faced by NTGIL, with the assistance of the NTGIL risk and Audit Committee. This section presents information about NTGIL's exposure to each of the risks, and its objectives, policies and processes for measuring and managing risk.

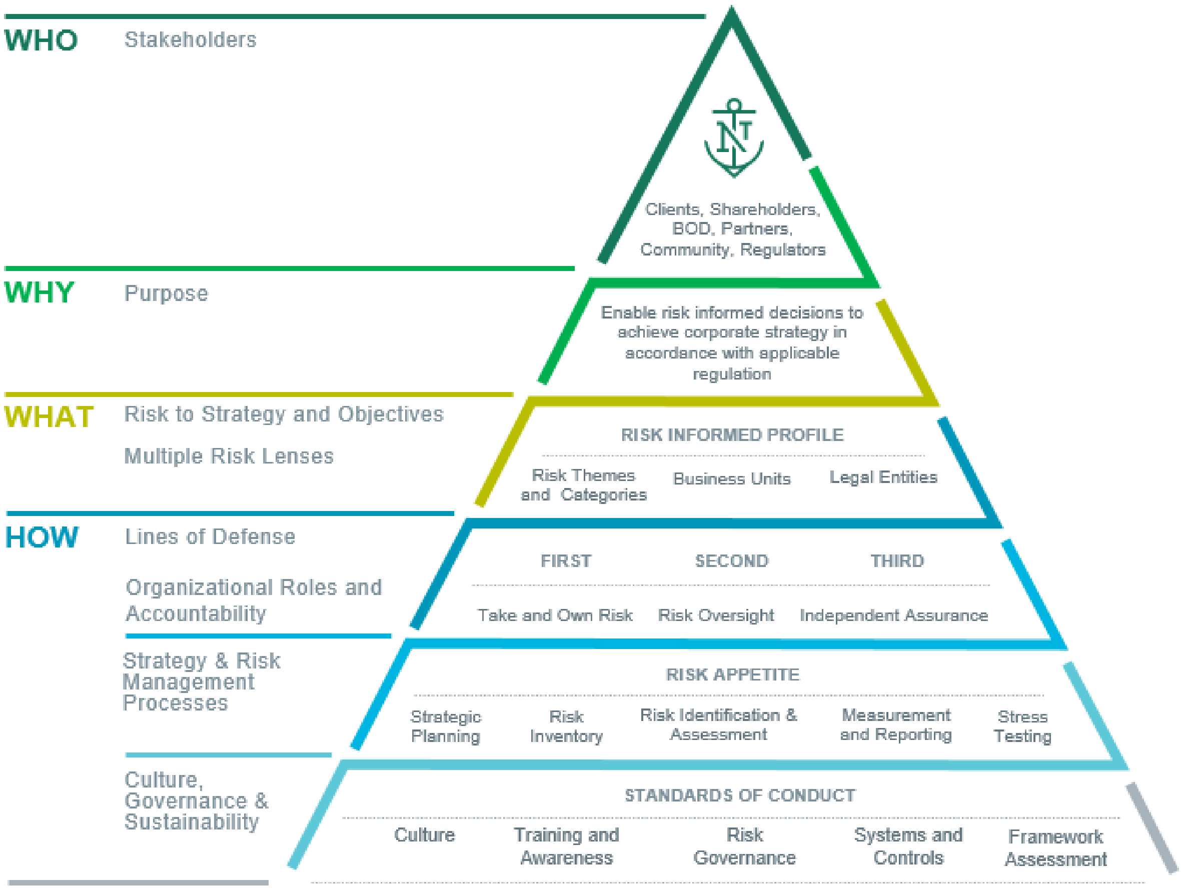
2.1.1 Risk Management Framework

Northern Trust has established a RMF to define, measure, monitor and control risk. It provides a comprehensive overview of how risk is managed across Northern Trust and the risk expectations for all partners. The RMF addresses three inter-related expectations:

- Ensure Northern Trust operates in a safe and sound manner by identifying and managing risks;
- Enable prudent risk-taking behaviour and appropriate partner conduct through discussion forums and governance bodies; and
- Facilitate effective definition and communication of acceptable risk appetite and reporting of results against appetite.

The RMF is depicted by the RMF “Triangle” below:

Figure 2: Northern Trust RMF



Anchored by Northern Trust's culture, values, and standards of ethical conduct, the RMF defines risk appetite and the approach for taking informed risks. Underpinning the RMF are governance bodies, policies, processes, systems and controls embedded across the lines of defence to support strategy, understand risks, inform decisions, and manage risks within risk appetite and in compliance with applicable laws and regulations.

The RMF further articulates the roles and responsibilities of partners in various areas of the organisation, including:

- Business unit line management – *"First Line of Defence*";
- Business unit risk management – *"Second Line of Defence"*;
- Corporate Risk Management – *"Second Line of Defence"*; and
- Audit Services – "*Third Line of Defence"*.

The guiding principles of global risk management include ensuring that partners at all levels are active participants in the risk management process, concurrent with the appropriate governance, oversight, investment and staffing, and that risks are assigned to specific owners while a segregation of duties is maintained.

2.1.2 Risk Governance

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. This well-defined governance framework includes:

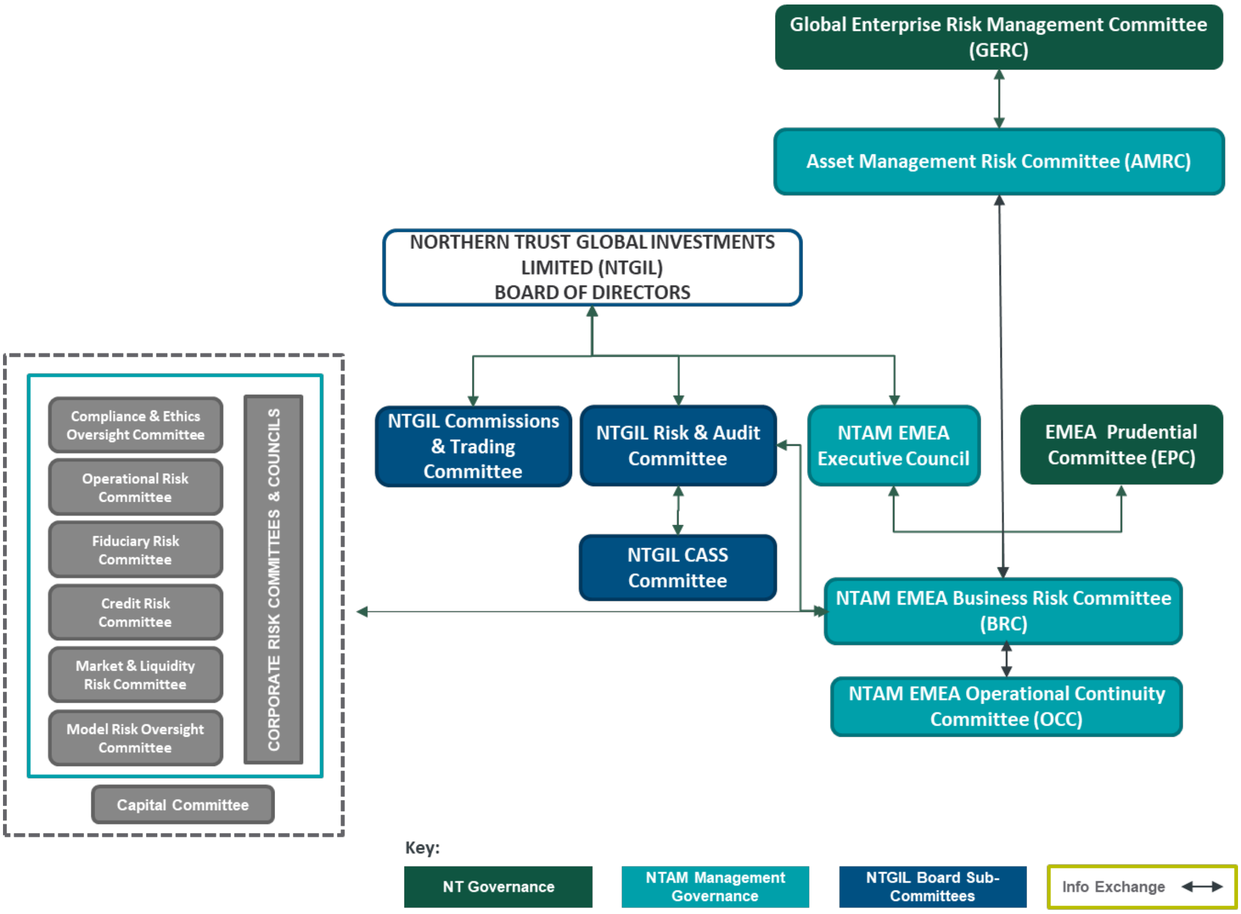
- Roles and responsibilities of the Board of Directors, board committees, management and employees;
- Clearly defined accountabilities and expectations for all relevant parties;
- Processes for risk-based decision-making and escalation of issues;
- Sound systems for internal control; and
- Appropriate assurance processes.

As noted within the Overview Section the NTGIL Board has primary responsibility for the oversight of strategy and risk management within NTGIL, including:

- Approving the strategic plans and main objectives including supervision of their implementation;
- Implementing a comprehensive strategy and framework relating to risk management;
- Reviewing the organisational and functional structures on a periodical basis;
- Deciding the performance objectives and supervising the overall performance of NTGIL; and
- Supervision of capital expenditure

The risk governance structure of NTGIL is set out below.

Figure 3 - NTGIL Risk Governance Structure



NTAM Corporate Committees

The NTGIL RMF leverages the NTAM Corporate Committees to add an extra layer of review and challenge with further recommendations to the Board. Whilst these committees are not sub-committees of the NTGIL Board, they provide important further review and challenge to ensure best practice is being adhered to, with further recommendations being escalated to the NTGIL Board for consideration as appropriate.

a) NTAM EMEA Business Risk Committee

The primary purpose and responsibility of the NTAM EMEA Business Risk Committee ('**BRC**') is to provide governance and oversight of the implementation and maintenance of the global RMF across the NTAM EMEA legal entities.

b) Operational Continuity Committee

The Operational Continuity Committee is primarily responsible for monitoring, oversight and challenging the business' ability to continue to provide services that are deemed critical to the stability of UK financial markets and economy.

c) Asset Management Risk Committee

The primary purpose of the Asset Management Risk Committee ('**AMRC**') is to oversee the management of risks within the Asset Management business globally. The AMRC assesses how such risks are identified, monitored, controlled and mitigated. In its oversight role, the AMRC also considers and recommends enhancements to processes and procedures to further mitigate identified risks within the Asset Management Business Unit and legal entities.

EMEA Prudential Committee

The EMEA Prudential Committee (‘**EPC**’) oversees financial prudential activities of entities in the EMEA region subject to EMEA regulatory supervision. The EPC is the primary review body of the NTGIL ICARA prior to presentation to the Board. EPC members review the entire ICARA report individually and collectively, providing challenge and review, before making recommendations to the Board.

2.2 Principal Risks & Potential Harms

The risk that NTGIL considers in executing its strategy is defined in the *“Risk Universe”* which provides structure to classify the inherent risks faced by the business. The Risk Universe is comprised of the following principal risk categories: operational, credit, market, liquidity, strategic, fiduciary and compliance. For capital purposes, Northern Trust considers operational risk to include compliance and fiduciary risk, although each is governed and managed separately.

The risk profile of NTGIL is determined through a point in time assessment of inherent and residual risks across each of the risk categories below. The risk types outlined within Section 2.2 Principal Risks are included in NTGIL’s own funds adequacy assessment using risk sub-category definitions to consider the broad population of risks to which NTGIL is exposed.

An assessment of the three harms (Harm to Client, Harm to Firm and Harm to Market) has been embedded within the NTGIL RMF from a top-to-bottom perspective and are a key consideration for stakeholders across the business. Evaluating and understanding the inherent and residual risks within NTGIL and their impacts on the material harms is the key starting point for the Internal Capital and Risk Assessment (‘**ICARA**’).

Once these risks have been identified, the regulatory own funds requirements must be understood and the adequacy of the own funds available against those requirements must be assessed over the assessment horizon and versus the three harms. For capital adequacy purposes, Northern Trust defines these risks as those that could have a significant impact on clients/counterparties, the market or the firm and these are mitigated through controls and adequate financial resources and/or maintaining appropriate regulatory capital requirements. The impact could result from individual or a combination of risk events.

2.2.1 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. The objective is to manage operational risk so as to balance the avoidance of financial losses and reputational damage with overall cost effectiveness.

For NTGIL, transactional Risk (execution, delivery & process management), technology risk and business continuity are considered the key components of operational risk which can have impacts to client and to firm.

Transactional risk is the risk that a transaction is altered, delayed or not properly executed. Examples would include losses due to clerical error, procedural error or system technology failures.

Line managers have the primary responsibility for managing the inherent risks of all activities under their control. As part of Northern Trust’s operational risk management, various techniques are employed to identify current risks (including Risk and Control Self Assessments and Operational Loss Event Reporting).

A Reconciliation and Exception Management Policy is in place which enables potential risk to be identified in a timely manner.

The Corporate Information Security and Technology Risk Management function 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.

Business continuity risk is overseen by a dedicated team, Global Business Continuity and Recovery Services (‘**GBCRS**’). GBCRS helps to assess and coordinate incident response and set standards for the content and testing of disaster recovery and business continuity plans.

NTGIL’s inherent operational risk is significantly mitigated through a well-established range of risk management programmes and business unit controls. NTGIL’s Risk and Audit Committee oversees the effective management of its operational risk and reports to the NTGIL Board.

For capital purposes, operational risk is considered to include compliance and fiduciary risk, although they are governed and managed separately under Northern Trust’s RMF.

NTGIL’s overall residual risk rating for operational risk is deemed to be moderate.

2.2.2 Credit Risk

Credit risk is the risk to interest income or principal from the failure of a client, borrower or counterparty to perform an obligation.

For NTGIL, credit risk mainly arises from fee income that may not be received in respect of NTGIL’s asset management services as well as the placement of the entity’s capital on short term deposit with money market counterparties.

The counterparties used by the entity for investment of surplus cash are highly credit worthy financial institutions. The concentration risk of the placement of money market deposits with a limited number of counterparties is accepted.

The entity has robust processes and controls in place to mitigate the risk of loss from money market placements including pre-approved counterparty limits set by the Northern Trust Capital Markets Credit Committee (a sub-committee of the Northern Trust Credit Risk Committee) in accordance with the Corporate Credit Policy & Standards. In addition to maintaining placements of short durations, there is daily monitoring and reporting of exposures.

NTGIL’s Risk and Audit Committee oversees the effective management of credit risk and reports to the NTGIL Board. None of NTGIL’s s credit exposures were reported past due or impaired in the 2022 financial statements. All receivables are repayable on demand or within 3 months.

NTGIL’s overall residual risk rating for credit risk is deemed to be limited.

2.2.2.1 Concentration Risk

NTGIL has determined that its concentration risk arises from the following limited sources:

- Non-cash credit exposures;
- The location of client money;
- NTGIL’s own cash deposits; and
- Earnings.

Given the simple composition of NTGIL's balance sheet, exposures are generally intercompany receivable amounts. The control in place for these exposures is to ensure settlement within standard terms. This avoids an accumulation of an exposure to a single counterparty.

NTGIL client money exposures arise through placing overnight time deposits for a subset of its securities lending cash reinvestment clients. Given the overnight nature of these deposits and the strategy of placing the client money at an institution offering the most favourable rate of return, there is a low inherent concentration to one particular counterparty.

For own cash deposits, there is a limit in place which is to hold at least the wind-down cost amount in at least one bank account external to the Northern Trust Group. 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 has been developed in order to monitor the evolution of revenue concentration over time.

2.2.3 Market Risk

Market risk is not a material risk for NTGIL . Trading risk is the potential for movements in market variables such as foreign exchange and interest rates to cause changes in the value of trading positions. NTGIL trades for its clients on an agency basis and does not trade proprietary funds or hold trading inventory. There is some exposure to FX risk given the need to convert non-base currency income into base currency, however this is not material. Interest rate risk on the balance sheet is the potential for movements in interest rates to causes changes in net interest income and the market value of equity. Capital and reserves are invested in short term money market placements. The aim of this is to preserve capital and reserve levels rather than generate return and thus interest rate risk is minimal.

2.2.4 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. Given the nature of its business, the main drivers of liquidity events are operational in nature; these risks are identified, monitored and managed via the NTGIL risk assessment framework.

Under Northern Trust's risk framework, liquidity risk is governed by the Asset and Liability Management Committee from a first line of defence perspective, and the Market and Liquidity Risk Committee from a second line of defence perspective. NTGIL operates within this framework. Assessment and approval of the systems and controls used to manage liquidity risk is provided by the NTGIL Board. NTGIL is also subject to system and control requirements under the UK liquidity regime.

NTGIL's residual liquidity risk is low, it does not take on customer deposits or trade as principal; liquidity risk is limited to the management of day-to-day operating expenses or the potential need to fund a shortfall arising from client money rules. NTGIL has an overdraft facility provided by The Northern Trust Company ('**TNTC**'), which it may call upon in the unlikely event that a need arises.

Another important area of NTGIL's liquidity risk management is the development and maintenance of its Recovery Plan. NTGIL has developed an individual Recovery Plan.

2.2.5 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, the most material harms will be to the client and the firm.

NTGIL is a non-SNI MIFIDPRU investment firm and a wholly owned subsidiary of an overseas parent with a simple business model delivering a sub-set of global products. To achieve this, NTGIL recognises the importance of the strong global reputation and brand of Northern Trust. Northern Trust in turn, requires NTGIL to deliver the relevant global products to a standard that maintains the global reputation. Therefore, the management of strategic risk is a balance between actions taken at the group level and by the NTGIL Board.

For NTGIL, strategic risk is managed by the NTGIL Board. The NTGIL Board greatly benefits from the experience and oversight provided by its non-executive directors who are able to provide guidance and challenge on strategic issues. The NTGIL Board is also able to draw on NTGIL legal entity risk reporting, NTGIL Risk and Audit Committee, EMEA Business Risk Committee and Corporate risk governance structure, as well as risk management programmes to oversee strategic risk.

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

NTGIL's overall residual risk rating for strategic risk is deemed to be limited.

2.3 Risk Appetite

Risk Appetite is defined as the aggregate level and types of risk the NTGIL 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 NTGIL Board.

NTGIL establishes individual Risk Appetite Statements and measures by Risk Themes. The Risk Appetite is focused on and dynamically informed by key risks and associated risk assessments supported by an array of core measures. The core measures are reported as part of the quarterly NTGIL risk report.

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

2.4 Adequacy of Risk Management Arrangements

The NTGIL Board is satisfied that the existing risk management arrangements are sufficient with regard to the 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 NTGIL 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.

So that these responsibilities are undertaken, the NTGIL 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 NTGIL;
- Ensures the integrity of the accounting and financial reporting systems of NTGIL, 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 NTGIL when servicing its clients' needs;
  - The effectiveness of its governance arrangements;
  - The adequacy of the 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 NTGIL Board Packs distributed to members of the NTGIL Board and formal minutes taken at each meeting.

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

The NTGIL 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 & Inducements Policy document which is applicable to all regulated Northern Trust EMEA entities and approved by the Northern Trust EMEA Risk Committee ('**ERC**') and all Boards/Management Committees of the EMEA entities covered by the policy, including the NTGIL Board. The policy sets out how NTGIL seeks to prevent and deal with conflicts of interest if they arise.

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

To ensure the members of the NTGIL Board are competent to carry out their duties and meet the requirements to manage NTGIL 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 NTGIL Board undergoes an annual board performance effectiveness review and an annual collective suitability assessment to ensure the committee governance operates effectively and the composition of the committee provides for:

- Appropriate knowledge, skills and experience to discharge the duties conferred upon the committee as outlined in the 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 NTGIL Board Directorships

All executive directors of the NTGIL 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 2022 performance year, three directors of the NTGIL Board held a total of six 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 Chief Human Resources Officer International. In addition, all candidates are assessed against competencies expected by the FCA (i.e. Risk Management and Control, Market Knowledge, Business Strategy & Business Model, Financial Analysis & Control, Governance Oversights & Controls, Regulatory Framework).

The interview panel for positions within the management body consists of senior managers and directors, which may include any combination of the Chief Executive Officer, Chief Risk Officer (‘**CRO**’), Chief Human Resources Officer International, Chief General Legal Counsel, as well as other NEDs. Appointment to a management body position would require the candidate to demonstrate how they have a solid understanding and experience of all the key accountabilities and competencies required for the role. Thorough documentation containing the feedback from all interviewers is held within Human Resources to evidence the selection decision, and Director appointments require approval from the locally based governance group, the Nominations Executive Sponsor Group.

Per MIFIDPR 8.3.1R(2), NTGIL is required to disclose the number of directorships held by each member of the NTGIL 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: NTGIL director external directorships

	No. of Directorships		
Director name	Executive	Non-executive	Total
Jane Vessey	1	2	**3**
Yves Dermaux	0	2	**2**
Richard Bartholomew	0	0	**0**
Marie Dzanis	0	1	**1**
Martha Fee	0	0	**0**
Adam Hallsworth	0	0	**0**
James Rippey	0	0	**0**
Bimal Shah	0	0	**0**

3.3 Policy promoting diversity on the NTGIL 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 applications from a broad and diverse set of applicants and consider the diversity balance of the Board as part of the organisation's 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.

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.

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

4 Own funds

4.1 Composition of own funds

Own funds of NTGIL 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**	**140,166**	
2	**TIER 1 CAPITAL**	**140,166**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**140,166**	
4	Fully paid up capital instruments	21,275	*Financial Statements - Note 15*
5	Share premium	5,325	*Financial Statements - Note 16*
6	Retained earnings	113,566	*Financial Statements - Note 17*
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 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 end 31 December 2022	As at year end 31 December 2022	
Assets				
1	Loans and advances to banks	126,000		
2	Cash and cash equivalents	24,525		
3	Debtors	11,118		
	Total Assets	**161,643**		
Liabilities				
1	Creditors: amounts falling due within one year	21,477		
	Total Liabilities	**21,477**		
Shareholders' Equity				
1	Called up share capital	21,275		Item 4
2	Share premium account	5,325		Item 5
3	Profit and loss account	113,566		Item 6
	Total Shareholders' equity	**140,166**		

4.3 Main features of own instruments issued by the firm

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

Table 4: Main features of own instruments issued by NTGIL

Type of placement	Private placement
Instrument type	Ordinary shares
Amount recognised as regulatory capital	$21,275,000
Nominal amount of instrument	$21,275,000
Issue price	$1 each
Dividend payments	Fully discretionary

5 Own funds requirements

5.1 Own funds requirements

As a non-SNI MIFIDPRU investment firm, NTGIL 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 £150,000;
- The fixed overheads requirement (‘**FOR**’); and
- The K-factor requirement (‘**KFR**’).

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

The NTGIL own funds requirement as at 31 December 2022 is set out below.

Table 5: OFR1 - MIFIDPRU 4.3 compliance

Own Funds Requirement item		$000
		2022
Permanent minimum capital requirement		**180**
Fixed overheads requirement		**8,934**
Sum of K-AUM, K-CMH & K-ASA requirements	24,703	
Sum of K-COH & K-DTF requirements	817	
Sum of K-NPR, K-CMG, K-TCD & K-CON requirements	0	
Total KFR		**25,521**
Binding requirement		**25,521**

5.2 Approach to assessing adequacy of own funds

NTGIL 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, NTGIL operates an ICARA process. The ICARA process is the collective term for the internal systems and controls that NTGIL 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 NTGIL risk management framework identifies and assesses the material potential harms inherent within NTGIL 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).

An assessment of harms across a series of key risk scenarios are mapped to harm-to-client, harm-to-firm and harm-to-market categories to determine the financial impacts associated with identified harms.

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.

5.2.2 Wind-down

NTGIL 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 NTGIL to wind down;
- Reporting of indicators of a wind-down scenario occurring;
- Assessment of harm to key stakeholders of NTGIL 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, NTGIL 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 NTGIL Board has determined that sufficient own funds and liquid assets are held to meet the OFTR and LATR and considers that NTGIL 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 our 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 our compensation framework.

In 2020, a Remuneration Committee was established for NTGIL, consisting of two independent non-executive directors. This committee ensures remuneration policies and processes applicable to NTGIL are operated in line with the requirements of the MIFIDPRU Remuneration Code and make recommendations to the NTGIL Board.

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

- Chief Human Resources Officer International (chair);
- Regional CRO (member);
- Manager, Compliance, UK and Mainland EMEA (member)
- Manager, Business Unit Risk (member);
- International Chief Finance Officer ('**CFO**') (member);
- Regional Executive President Northern Trust EMEA (standing attendee);
- Deputy General Counsel (standing attendee); and
- Head of Compensation and Regulatory Reward, EMEA (standing attendee).

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 Prudential Regulation Authority ('**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 NTGIL; however these all operate within appropriate governance structures and under delegated authorised limits from Senior Managers.

Partners identified as MRTs for performing an executive function role in more than one regulated entity *"Group MRTs"* will be subject to the Remuneration Rules aligned to their primary regulator. This is based on the regulated entity to which they provide the majority of their services (i.e. on the basis of role pre-dominance in an entity).

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 & 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 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.

There is a set limit on the amount of incentive compensation that can be paid in relation to fixed compensation. This is referred to as the bonus cap. The maximum incentive compensation that an MRT can receive is 100% of their fixed compensation or 200% under limited and exceptional circumstances.

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

- Guarantees & Buy-out Guidelines;
- Retention & Recognition Award Guidelines;
- Northern Trust Policy on Recoupment;
- Total Compensation Policy Statement; and
- UK and Luxembourg 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 ('**RSUs**')).

The following disclosures relate to NTGIL MRTs[3]. In 2022, there were twenty MRTs. The aggregate remuneration details in respect of these MRTs is shown below.

Table 6: NTGIL staff remuneration breakdown

Role	Fixed remuneration (US$m)	Variable remuneration (US$m)	Total remuneration (US$m)
Senior Management[4]	4.7	4.0	8.7
Other MRTs	1.2	1.0	2.2
All other staff	8.9	3.1	12.0
Total	**14.9**	**8.1**	**23.0**

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.

All NTGIL executive MRTs are employed by another Northern Trust Group entity. In addition, the information above includes remuneration for MRTs whose responsibilities also cover:

- Northern Trust Global Services SE: seven employees;
- Northern Trust Securities LLP: eight employees;

[3] Data for leavers in the performance year have been excluded.

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

- Northern Trust Investor Services Limited: seven employees; and
- The Northern Trust Corporation London Branch: seven employees.