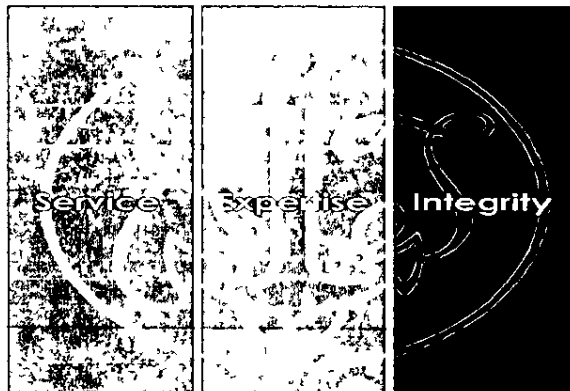


Northern Trust Global Services Limited

**Annual Financial Statements
for the year ended 31st December 2013
together with Directors' and Independent Auditor's Reports**



Registered in England No. 04795756

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Directors

Ms P Biggs
Mr T Glaysher
Mr W Leech
Mr D Marlborough
Mr C Meares
Mr J Misselbrook
Mr T Robinson, CBE

Secretary

Mr M Wright

Registered Office

50 Bank Street
Canary Wharf
London
E14 5N1

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

The Directors present their annual report on the affairs of Northern Trust Global Services Limited ("the Company") together with the financial statements and Auditor's Report for the year ended 31st December 2013

Principal activities

The principal activities of the Company are the provision of custody services, fund administration services, banking, and other forms of financial services including borrowing, securities lending and holding money as banker. The Company has branches in Luxembourg, Netherlands and Sweden and a representative office in Abu Dhabi.

Operational and financial review

The pre-tax profit of the Company in 2013 increased by 5% to €15,887,000 (2012: €15,079,000), due to increased fund accounting and securities lending income year on year. The Directors project continued profitability for 2014.

Net Interest Income increased to €765,000 (2012: €486,000), mainly due to less interest paid to group banks and on customer deposits.

Fees and commissions receivable are generally based on the market value of assets under custody, the volume of transactions, securities lending volume and spreads, and fees for services rendered. Fees and commission income comprising of custody fees, fund administration income and securities lending income increased by 3% to €53,566,000 (2012: €52,257,000), contributing to profitability. Assets under custody revenues reduced to €24,672,000 in 2013 (2012: €24,737,000). Assets under administration increased leading to the increase of fund administration fee income to €24,584,000 in 2013 (2012: €23,327,000). Securities lending income increased to €4,310,000 (2012: €4,193,000).

Administrative expenses of €30,721,000 (2012: €30,094,000) include direct expenses of the Company and the impact of transfer pricing. The increase was primarily due to staff related direct costs for the Luxembourg branch, the Netherlands branch, the Sweden branch and the Abu Dhabi representative office, part of a program of continued investment in those regions.

Assets under custody

In the normal course of business, the Company holds assets in a fiduciary or agency capacity for its clients. In accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice), the assets are not those of the Company and are not included in its balance sheet.

Financial risk management

The Company's activities expose it to a variety of financial risks and these activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the business, and the operational risks are an inevitable consequence of this. The Company aims to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Company's financial performance.

Risk management oversight is maintained through the Asset and Liability Committee ("ALCO"), the Credit Policy, Business Risk and Senior Credit and Counterparty Risk Management Committees of the ultimate parent company. Risk is assessed and managed by these committees under the Asset and Liability Management Policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, liquidity risk, foreign exchange risk, operational risk and credit risk. The Internal Audit function across the Northern Trust Corporation is responsible for the independent review of both risk management and the control environment around Northern Trust Global Services Limited.

Pillar 3 disclosure

As a ICA and PRA (formerly FSA) regulated firm the Company is required to publish on an annual basis a set of Pillar 3 disclosures. These disclosures are related to market discipline and aim to make firms more transparent by requiring them to publish prescribed details of their risks, capital and risk management. The Company's most recent set of disclosures are published on the Northern Trust Corporation website and may be found at the following address:

<http://www.northerntrust.com/about-us/investor-relations/financial-information/sec-regulatory-filings>

Financial resources and going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Operational and Financial Review above. The Company has made a profit for 2013 and is projected to continue to generate positive cash flows in the medium term. The Company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Directors have assessed the responses of the Directors of the Company's ultimate parent, Northern Trust Corporation, to their enquiries and have consulted available information and associated risks as can be found in the Northern Trust Corporation's 10-K report. The Directors have no reason to believe that a material uncertainty exists which may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and of the enquiries made of the Directors of Northern Trust Corporation, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Future outlook of the business

It is the intention of the Directors to continue to develop the core activities of the Company which include the provision of global custody services, fund administration services, banking, and other forms of financial services including borrowing, lending or holding money

Eurozone

The Company has continued to address and establish procedures to manage country risk across multiple functional areas to understand the Company's exposure to an escalation of Eurozone debt issues, assess risk management preparedness and develop contingency actions

Results and dividend

The financial statements for the year ended 31st December 2013 are set out on pages 8 to 29. The profit on ordinary activities after tax for the year was - €11,968,000 (2012: €11,289,000). Shareholders' Funds at 31st December 2013 amounted to €165,549,000 (2012: €187,954,000). At a board meeting held on 4th March 2013, a final dividend of €19,205,000 was declared in respect of the year ended 31 December 2013. The dividend was paid in March 2013 (2012: €Nil).

The Directors do not recommend any further dividend in respect of 2013.

Capital Restructure

The issued share capital of the Company was reduced from €158,091,000 to €142,292,483 by cancelling and extinguishing 15,798,517 of the issued ordinary shares in the Company, each of which is fully paid up.

Directors

The Directors who served during the year were as follows:

Ms P. Biggs
Mr T. Glaysher (appointed 1st December 2013)
Mrs J. Karpinski (resigned 14th June 2013)
Mr W. Leech
Mr D. Marlborough
Mr C. Meares (appointed 12th February 2013)
Mr J. Misselbrook (appointed 9th December 2013)
Lord C. Powell, KCMG (resigned 12th December 2013)
Mr T. Robinson, CBE

Secretary

Mr M. Wright

Charitable and political contributions

The Company made no charitable or political donations during the year (2012: €500).

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG Audit Plc resigned as auditor on 1 April 2014 pursuant to Section 516 of the Companies Act 2006. The Directors appointed KPMG LLP as auditor of the Company in accordance with Section 489 of the Companies Act 2006.

By order of the Board,



Mr W. Leech
Director

16th April 2014

The core activities of the Company are custody services, fund administration and related services. In 2013, the Company earned €54 million revenue, an increase of 5% on 2012. The Company's client base is predominantly UK asset managers and asset owners in the Dutch, Nordic and Luxembourg regions.

The Company monitors the following Key Performance Indicators:

- Assets Under Custody ("AUC") have grown to €196.4 billion in 2013 (2012: €182 billion),
- Assets Under Administration ("AUA") have grown to €65.0 billion in 2013 (2012: €54.4 billion).

Fund accounting and transfer agency business is contracted through Northern Trust Global Services Limited. Growth is expected in new and existing business, including additional revenue opportunities resulting from implementation of the Alternative Investment Fund Managers Directive ("AIFMD").

The Company's strategy remains one of organic business expansion through new products, new markets and the continued provision of a high quality client experience, tailored to clients' needs.

The principle risks and uncertainties continue to come from the complex regulatory environment including but not limited to impacts of AIFMD, FATCA, UCITS and MiFID.

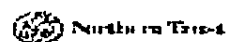
By order of the Board,



Mr W. Leech
Director

16th April 2014

Northern Trust Global Services Limited
Statement of Directors' Responsibilities in respect of
the Directors' Report, the Strategic Report and the Financial Statements
For the year ended 31st December 2013



The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**Independent Auditor's Report to the Members of
Northern Trust Global Services Limited
For the year ended 31st December 2013**

We have audited the financial statements of Northern Trust Global Services Limited ("the Company") for the year ended 31st December 2013 as set out on pages 8 to 29. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31st December 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Karyn Nicoll (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

17th April 2014

Northern Trust Global Services Limited
Profit and Loss Account
For the year ended 31st December 2013



	Notes	2013 € '000	2012 € '000
Interest and similar income	1	8,963	9,661
Interest expense and similar charges	2	<u>(8,198)</u>	<u>(9,175)</u>
Net interest income		765	486
Fees and commissions income	3	53,566	52,257
Fees and commissions expense	4	(7,555)	(6,779)
Other operating (expense)/income	5	(168)	(791)
Administrative expenses	6	<u>(30,721)</u>	<u>(30,094)</u>
Operating profit		15,887	15,079
Profit on ordinary activities before tax		15,887	15,079
Tax expense on ordinary activities	9	<u>(3,919)</u>	<u>(3,790)</u>
Profit on ordinary activities after tax		<u>11,968</u>	<u>11,289</u>

Statement of Total Recognised Gains and Losses
For the year ended 31st December 2013

	Notes	2013 € '000	2012 € '000
Profit on ordinary activities after tax		11,968	11,289
Cash flow hedges			
- Net realised losses taken to Profit and Loss account		631	-
- Net unrealised losses taken to equity	22	<u>-</u>	<u>(73)</u>
Total recognised gain for the year		<u>12,599</u>	<u>11,216</u>

There are no material differences between the results as disclosed above and the results on an historic cost basis. All income and expense arise from continuing activities.

The Statement of Accounting Policies and Notes on pages 10 to 29 form an integral part of these financial statements.

Northern Trust Global Services Limited
Balance Sheet
As at 31st December 2013



	Notes	2013 € '000	2012 € '000
Assets			
Cash at Banks		257,432	136,416
Loans and advances to group banks	11	979,492	775,794
Loans and advances to banks		1,213,311	1,217,690
Loans and advances to customers	12	11,656	35,236
Prepayments and accrued income	13	9,997	11,742
Fixed assets	14	250	96
Other assets	15	4,731	10,267
Total assets		2,476,869	2,187,241
Liabilities			
Deposits by group banks	16	226,935	505,874
Deposits by other banks	17	146	50
Deposits by customers	18	2,062,987	1,471,810
Accruals	19	2,065	2,552
Other liabilities	20	19,187	19,001
Total liabilities		2,311,320	1,999,287
Equity			
Called up share capital	21	142,292	158,091
Cash flow hedge reserve	22	-	(631)
Profit and loss account	22	23,257	30,494
Total equity		165,549	187,954
Total liabilities and equity		2,476,869	2,187,241

These financial statements were approved by the Board of Directors on 16th April 2014 and signed on their behalf by

Mr W. Lecch
Director

Northern Trust Global Services Limited
Company Registration Number 04795756

16th April 2014

The Statement of Accounting Policies and Notes on pages 10 to 29 form an integral part of these financial statements

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with the historic cost convention UK Accounting Standards (UK Generally Accepted Accounting Practice) and the Companies Act 2006 modified by the revaluation to fair value of certain positions in accordance with applicable accounting standards

Interest income and expense

Interest income and expense for all interest-bearing financial instruments except those classified as held for trading or designated at fair value are recognised in "Interest income" and "Interest expense" in the profit and loss account using the effective interest rates of the financial assets or financial liabilities to which they relate

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments earned or paid on a financial asset or liability through its expected life or where appropriate a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate includes all estimated cash flows considering the contractual terms of the financial instrument, but excludes the risk of future credit losses

Fee income and expense

Fee income is derived and payable on custody services, fund administration services and customer investment activities. Fee income and expenses are recognised as follows:

- income earned and expenses incurred on the execution of a significant act are recognised in the profit and loss account when the act is completed
- income earned and expenses incurred for the provision of services over a period of time are recognised in the profit and loss account as the services are provided

Foreign currencies

The functional currency of the Company is Euro. The Directors consider it appropriate to prepare the Company's financial statements in this currency.

Transactions in currencies other than Euro are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and short-term deposits on call with banks.

Pensions

The Company operates a defined contribution retirement scheme. The amounts charged to the Profit and Loss Account during the year in respect of the defined contribution scheme represents the contributions paid or payable.

Loans and advances

Loans and advances to banks and customers include loans and advances originated by the Company which are not intended to be sold in the short term and have not been classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when either borrowers repay their obligations or the loans are written off. They are initially recorded at fair value and are subsequently measured at amortised cost using the effective interest rate method in line with FRS26.

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans. Impairment losses are recorded as charges to the profit and loss statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts. Losses which may arise from future events are not recognised.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

Deposits and subordinated loans

Deposits and subordinated loans are initially measured at fair value net of transaction costs at trade date. Subsequently they are measured at amortised cost using the effective interest rate.

Taxation

Corporation tax is calculated based on the taxable profit/loss for the year. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less, tax in the future have occurred at the balance sheet date. Deferred tax assets are recognised only to the extent that the Directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible timing differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost of the assets over their expected useful lives at the following annual rates:

Computer software	7 years
Laptops	3 years
Office equipment	5 years
Leasehold Improvements	15 years

Derivative financial instruments

Derivative instruments are classified as trading unless they are designated as hedging instruments. Derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value on initial recognition is normally the transaction price, i.e. the fair value of consideration received or given. Subsequent to initial recognition, fair values are obtained using quoted market prices in active markets or valuation techniques, including discounted cash flow models if quoted prices are not available. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company enters into derivatives to hedge market risk associated with foreign exchange transactions. Cash Flow Hedge accounting is applied to the derivatives in line with principles of FRS 26.

Derivatives held as hedging instruments in qualifying hedge accounting relationships

The Company designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and the hedged item, including the risk management objective and strategy in undertaking the hedge transaction, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated and whether the actual results of each hedge are within the range of 80-125 percent (effectiveness range as per FRS26). The Company makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur.

During the period presented in these financial statements, the Company had certain cash flow hedges. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised directly in equity, in the cash flow hedge reserve. The amount recognised in equity is transferred to profit or loss in the same period as which the hedged cash flows affect profit or loss. This is presented in other operating income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the hedge accounting designation is revoked, then hedge accounting is prospectively discontinued. The amount recognised in equity remains in equity and is transferred to profit or loss when the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur then the balance in equity is recognised immediately in profit or loss.

Derivatives that do not qualify for hedge accounting

Changes in fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the profit and loss account.

Related party transactions

As a subsidiary undertaking of Northern Trust Corporation, the Company has taken advantage of the exemption in Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with other members of the group headed by Northern Trust Corporation.

Cash flow statement

The Company has taken advantage of the exemption available under Financial Reporting Standard 1 (Cash Flow statements - revised 1996) not to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of a company whose financial statements are publicly available.

Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services which are subject to risks and rewards that are different from those of other segments. The Company is organised into a single business segment, asset servicing, and operates in a single geographic region, Europe and the Middle East and Africa. As a result no separate segmental reporting disclosures have been made.

Comparatives

To the extent necessary the comparatives have been adjusted to facilitate changes in the presentation of the current year amounts.

1 Interest and similar income	2013	2012
	€ '000	€ '000
Loans and advances to group banks	3,191	3,650
Loans and advances to banks	5,042	5,107
Loans and advances to customers	503	434
Other	227	470
	<u>8,963</u>	<u>9,661</u>
2 Interest expense and similar charges	2013	2012
	€ '000	€ '000
Deposits by group banks	1,932	2,372
Deposits by customers	6,032	6,561
Other	234	242
	<u>8,198</u>	<u>9,175</u>
3 Fees and commissions income	2013	2012
	€ '000	€ '000
Custody	24,672	24,737
Securities lending	4,310	4,193
Fund administration	24,584	23,327
	<u>53,566</u>	<u>52,257</u>
4 Fees and commissions expense	2013	2012
	€ '000	€ '000
Sub-custodian expenses	<u>7,555</u>	<u>6,779</u>
5 Other income	2013	2012
	€ '000	€ '000
Foreign exchange expense	<u>168</u>	<u>791</u>

6 Administrative expenses

a) Administrative expenses analysis

Auditors remuneration is borne by a fellow group undertaking Northern Trust Management Services Limited ("NTMSL"). Apart from the staff disclosed below, all other staff involved in the Company's operations are employees of NTMSL or Northern Operating Services Pvt Limited ("NOS"). These entities are remunerated for those staff through the global transfer pricing methodology. Administrative expenses include the net amounts transferred to the Northern Trust Group in respect of transfer pricing, see Note 8.

The average number of persons employed by the Company during the year was 29 (2012: 24).

	2013 € '000	2012 € '000
Staff costs		
- Salaries and wages	5,211	4,476
- Social security costs	425	309
- Pensions	202	221
Total staff costs	<u>5,838</u>	<u>5,006</u>
 The Company made no charitable or political donations during the year (2012: €500)		
Auditors remuneration		
- Audit fees for statutory audit	158	158
- Regulatory audit	64	25
Total auditors remuneration	<u>222</u>	<u>183</u>
 Depreciation	64	46
 Transfer pricing (Note 8)	20,660	21,643
 Other administrative expenses	<u>3,937</u>	<u>3,216</u>
	<u>30,721</u>	<u>30,094</u>

b) Directors' emoluments

	2013 € '000	2012 € '000
Directors' emoluments	302	311
Deferred compensation - Cash	39	16
- Short term Restricted Stock Units	29	26
- Long term Restricted Stock Units	26	32
- Options	6	8
- Performance Stock Units	11	15
Money purchase scheme pension contributions	<u>12</u>	<u>14</u>
	<u>425</u>	<u>422</u>

The number of Directors who were members of the Company money purchase pension scheme during the year was 5 (2012: 7).

Deferred cash compensation expense is recognised during the period the award is made. Deferred Restricted Stock Units is recognised over the period that the Restricted Stock vests. Deferred Restricted Stock units vested during the current year.

The number of Directors who exercised share options during the year was 2 (2012: 2). The number of Directors in respect of whose services shares were received or repayable under long term incentive schemes during the year was 5 (2012: 7).

The majority of Directors' emoluments have been borne by a fellow group undertaking except for Non Executive Directors' remuneration of €156,140 (2012: €138,295).

Directors' emoluments are allocated based on the apportionment of time incurred by Directors for services to the company. Directors are employed by another NT group entity and the company does not incur any charge for these costs.

6 Administrative expenses (continued)

The emoluments in respect of the highest paid Director are as follows

	2013 € '000	2012 € '000
Directors' emoluments	76	74
Deferred compensation - Cash	22	-
- Short term Restricted Stock Units	15	-
- Long term Restricted Stock Units	6	-
- Options	6	-
- Performance Stock Units	11	-
Money purchase scheme pension contributions	6	-
	<u>142</u>	<u>74</u>

The highest paid Director exercised share options during the year (2012: nil)

7 Pension

The Company operates a defined contribution pension scheme solely for the benefit of employees

	2013 € '000	2012 € '000
Contributions	<u>202</u>	<u>221</u>

8 Transfer pricing

Transfer pricing generally refers to the determination of compensation for transactions conducted between commonly controlled taxpayers. The determination of an appropriate level of compensation is relevant for all transactions between affiliates for the provision of services, the utilisation of intellectual property and / or intercompany financing. This determination is made using an "arm's-length" standard that tests what would have occurred in comparable circumstances between comparable, unrelated taxpayers.

The Northern Trust Corporation group (the Group) global transfer pricing methodology uses a residual profit split approach that allocates profit by providing appropriate recognition of each entity's contribution: revenues and expenses, its function in the Group and its assets and risk profile. The framework also accounts for the fact that each Group service line may engage multiple affiliates to perform functions of varying complexity and value.

The residual profit split methodology framework starts with Group global revenue, which is first used to reimburse most direct costs of affiliates with a routine margin. The remaining profit is then split into product related profit pools which are in turn allocated to affiliates, such as the Company, using product specific allocation keys. The allocation keys are reflective of the economics of the Group's lines of business. The determination of the allocation keys begins with an evaluation of the metrics that represent contributions made by the various entities with respect to each product line. Allocation keys will be reassessed periodically to ensure that these continue to be representative.

Profit and Loss Account	2013 € '000	2012 € '000
Amounts transferred to global transfer pricing pool	(54,164)	(51,930)
Re-imbursement of expenses plus mark-up	18,808	16,287
Profit pool allocation	14,696	14,000
	<u>(20,660)</u>	<u>(21,643)</u>
Transfer pricing allocation for the Company		

9 Taxation	2013 € '000	2012 € '000
Analysis of charge / (credit) in period		
<i>Current tax charged / (credited) to the profit and loss</i>		
UK Corporation tax		
Current tax on income for the period	2 867	2,052
Double tax relief	-	-
Under / (over) provision in relation to prior year	-	(27)
	<u>2 867</u>	<u>2 025</u>
Foreign tax		
Current tax on income for the period	1,054	865
Under / (over) provision in relation to prior year	(2)	(11)
	<u>1,052</u>	<u>854</u>
Total current tax charge on ordinary activities	<u>3 919</u>	<u>2 879</u>
<i>Deferred tax charged / (credited) to the profit and loss</i>		
Origination and reversal of timing differences		
Trading losses	-	911
	<u>-</u>	<u>911</u>
Total deferred tax charge / (credit)	<u>-</u>	<u>911</u>
Total tax charge	<u>3,919</u>	<u>3,790</u>
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	<u>15 887</u>	<u>15 079</u>
Current taxation at 23.25% (2012: 24.5%)	3,693	3,694
Effects of		
Expenses not deductible	40	13
Depreciation in excess of capital allowances	1	-
Losses utilised in the year	-	(899)
Double tax relief	-	-
Foreign profit not taxed in the UK	(867)	(755)
Overseas tax suffered	1 054	864
Under / (over) provision in relation to prior year	(2)	(38)
	<u>3,919</u>	<u>2,879</u>
Current tax charge for period	<u>3,919</u>	<u>2,879</u>
Deferred tax asset		
At 1st January	-	(911)
Charge / (credit) on items in the profit and loss account for the year	-	911
	<u>-</u>	<u>-</u>
At 31st December	<u>-</u>	<u>-</u>

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 21% to 20% (effective 1 April 2015) was enacted in the Finance Act 2013. The anticipated effect of this further rate reduction will reduce the company's future current tax.

A deferred tax asset in respect of trading losses brought forward is fully utilised in 2012 (2011: €3,645,134). The asset arose on the purchase of Northern Trust International Fund Administration Services (UK) Limited in 2008. The loss can only be offset against profits in the same trade. A deferred tax asset was not recognised before 2011 as Management did not believe that it was probable that taxable income would be available against which the deferred tax could be utilised. Effective from 1st January 2011, Northern Trust Corporation, the Group, adopted a single global residual profit split approach to transfer pricing (Note 8) and with the change in estimation technique, the fund administration business is profitable.

The company has elected to exempt the profits of foreign branches from UK corporation tax effective 1st January 2012. Unrelieved foreign tax credits at 31st December 2011 will not be creditable in future years. Deferred tax has not been recognised on these items. The Company does not consider the representative office in Abu Dhabi to be a Permanent Establishment under Article 5 of the OECD Model Tax Convention and so this is excluded from the election.

10 Derivatives

The foreign exchange risk arising from the balance sheet is hedged with short term forward foreign exchange contracts generally maturing within a week of origination. The Company does not apply hedge accounting to these instruments.

The foreign exchange risk on certain expected income and expense related to future cash payments and receipts is hedged utilising foreign exchange contracts. The Company applies cash flow hedge accounting to these instruments.

Derivative instruments are contracts whose values are derived from one or more underlying financial instruments or indices. The Company's principal foreign exchange derivatives are forward foreign exchange contracts and currency swaps. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign exchange on a specific future date at an agreed rate. A currency swap involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged at a future date.

Derivative instruments are marked to market unless they are part of a cash flow hedge. The positive mark to market (in the money) is recorded as an asset under other assets and the negative mark to market (out of the money) is recorded as a liability under other liabilities.

The table below provides the contract or underlying principal amounts and year end fair values for the derivative instruments entered into by the Company at the balance sheet date.

Derivatives

	2013			2012		
	Fair values			Fair values		
	€ '000	€ '000	€ '000	€ '000	€ '000	€ '000
	Contract amount	Assets	Liabilities	Contract amount	Assets	Liabilities
Derivatives held for trading						
- FX forward contracts	-	-	-	25,662	646	(644)
Derivatives held for cash flow hedges						
- FX forward contracts	-	-	-	10,428	-	(631)
Total derivative contracts	-	-	-	36,090	646	(1,275)

Items included in cash flow hedges are forward foreign exchange contracts which have been taken out to hedge transactions denominated in currencies other than the Company's functional currency. These transactions are mainly in the fund administration business in which a large number of Sterling transactions are undertaken.

11 Loans and advances to group banks

	2013	2012
	€ '000	€ '000
- on demand	16,460	37,918
- within three months	963,032	737,876
	<u>979,492</u>	<u>775,794</u>

12 Loans and advances to customers	2013	2012
	€ '000	€ '000
Repayable on demand	<u>11,656</u>	<u>35,236</u>
None of the loans and advances in notes 11, 12 and 13 are past due or impaired as at 31st December 2013 and 31st December 2012		
13 Prepayments and accrued income	2013	2012
	€ '000	€ '000
Accrued interest - group banks	47	15
Accrued interest - banks	4	8
Accrued income	8,494	10,037
Prepayments	<u>1,452</u>	<u>1,682</u>
	<u>9,997</u>	<u>11,742</u>
14 Fixed assets		€ '000
<i>Cost</i>		
At 1st January 2012		307
Additions		218
At 31st December 2013		<u>525</u>
<i>Accumulated Depreciation</i>		
At 1st January 2012		211
Charge for the year		64
At 31st December 2013		<u>275</u>
<i>Net Book Value</i>		
At 31st December 2013		<u>250</u>
At 31st December 2012		<u>96</u>
15 Other assets	2013	2012
	€ '000	€ '000
Trade debtors	4,705	8,996
Income tax receivable	-	320
Derivatives	-	646
Other assets	<u>26</u>	<u>305</u>
	<u>4,731</u>	<u>10,267</u>

16 Deposits by group banks	2013 € '000	2012 € '000
Repayable on demand	150,373	465,070
Perpetual subordinated debt	<u>76,562</u>	<u>40,804</u>
	<u>226,935</u>	<u>505,874</u>

At 31st December 2013 there is a loan from the parent company, Northern Trust Holdings Limited for €76.6 million (2012: €40.8 million). This loan is subordinated in all respects to the claims of other creditors and repayable either on liquidation of the borrower, or if agreed with the lender with express permission granted by the Financial Services Authority (former regulator to the Prudential Regulatory Authority and Financial Conduct Authority). The loan is perpetual meaning it has no maturity date. Interest on this loan is expressed as a percentage per annum equal to the prevailing 12-month LIBOR rate on 27th December in each year, or the next business day, plus 200 basis points or such other rate as may be agreed by the parties.

17 Deposits by other banks	2013 € '000	2012 € '000
Repayable on demand	<u>146</u>	<u>50</u>

18 Deposits by customers	2013 € '000	2012 € '000
Repayable on demand	<u>2,062,987</u>	<u>1,471,810</u>

19 Accruals	2013 € '000	2012 € '000
Accrued interest - group banks	27	14
Accrued interest - customers	388	676
Accruals	<u>1,650</u>	<u>1,862</u>
	<u>2,065</u>	<u>2,552</u>

20 Other liabilities	2013 € '000	2012 € '000
Derivatives	-	1,275
Due to group undertakings	18,760	15,457
Provision for tax	(100)	-
Other liabilities	<u>527</u>	<u>2,269</u>
	<u>19,187</u>	<u>19,001</u>

21 Called up share capital

	2013 € '000	2012 € '000
<i>Authorised</i>		
400,000,000 ordinary shares of €1 each	<u>400,000</u>	<u>400,000</u>
<i>Allocated, called up</i>		
142,292,483 ordinary shares of €1 each (2012: 158,091,000)	<u>142,292</u>	<u>158,091</u>

During the year the issued share capital of the Company was reduced from €158,091,000 to €142,292,483 by cancelling and extinguishing 15,798,517 of the issued ordinary shares of €1 each in the Company, each of which is fully paid up

22 Reconciliation of shareholders' funds

	Share Capital € '000	Cash Flow Hedge Reserve € '000	Profit and Loss € '000	Total € '000
Opening shareholders' funds	158,091	(631)	30,494	187,954
Cancellation of 15,798,517 issued share capital	(15,799)	-	-	(15,799)
Dividends paid	-	-	(19,205)	(19,205)
Net realised losses on cash flow hedges taken to profit and loss account	-	631	-	631
Profit for the financial year	-	-	11,968	11,968
Closing shareholders' funds	<u>142,292</u>	<u>-</u>	<u>23,257</u>	<u>165,549</u>

23 Financial risk management

a) Introduction and overview

The Company's objective is to maintain a conservative attitude towards risk with a long term objective of stability. Credit, operational, strategic, liquidity risks and to a lesser extent market risks are key components of the risk profile of the Company.

The Company's Board is responsible for monitoring compliance with the Company's risk management framework in relation to risks faced by the Company. The Audit Committee is assisted in these functions by Internal Audit. In addition, Internal Audit undertakes both periodic and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Company utilises the framework of its ultimate parent, the Northern Trust Corporation ("NTC" or "Northern Trust"), which has a global structure and process for risk management. Local risk management, by the Company's Board and local risk oversight committees, use this global corporate risk structure. Policies are validated and approved locally and the local risk organisation is structured to provide the Company's Board with the necessary risk reporting and oversight to satisfy their responsibilities. The Company's Board has executive members who report to the Board on their activities.

Risk management is carried out by the following committees: Asset and Liability, Credit Policy, Fiduciary Risk, Operational Risk, Compliance Oversight and the Capital Committee. These committees provide risk appetite principles and detailed policies which are reviewed regularly to reflect changes in market conditions, products and services offered. The committees and Board, through training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

In addition to the above, there is the regional Europe, Middle East and Africa ("EMEA") business oversight committee ("EBOC") which is the senior oversight committee of the Company. This Committee is responsible for overseeing all risk types.

Furthermore, there is an Executive Management Committee ("EMC") which is responsible for the daily management of the UK Entities' businesses (including the Company) and execution of the agreed strategies. The Company has branches in the Netherlands, Sweden and Luxembourg, as well as a representative office in the United Arab Emirates. The country heads for these offices report into the EMC. The EMC has appointed the EMEA Risk Committee ("ERC") to assist it in managing all risks.

The Company's activities expose it to a variety of financial risks, and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company aims to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Company's financial performance.

b) Credit risk

Credit risk is the risk of loss from the failure of a borrower (e.g. a client or a counterparty) to perform an obligation. For the Company, whose core activity is the provision of global custody and related securities lending services to pension funds, foundations, endowments, regulated collective investment schemes and similar low risk clients principally resident in the EU, the primary source of credit risk derives from:

- balances placed on short-term deposit in the interbank market with banks or carried on account with nostro and sub-custodian deposit taking institutions (as a result of accepting deposits from global custody clients arising out of the settlement of their securities and financial transactions), and
- providing credit facilities to custody clients via overdrafts, as determined by case by case basis in support of global custody settlement activity.

23 Financial risk management (continued)

b) Credit risk (continued)

In addition, the Company acts as securities lending agent for clients and can provide indemnities for collateral deficiencies in the event of a borrower default. The credit risk exposure arises for all of the Company's clients with indemnities as it is liable to pay for the realisation of the collateral to meet the indemnifications.

In summary, inherent credit risk primarily arises from the following activities:

- money market placements,
- exposure to balances at sub-custodian and nostro banks,
- client overdrafts and
- securities lending

In 2011 the Company and the London Branch of Northern Trust Corporation ("NTC London") entered into arrangements such that inter-company amounts due by NTC London and the Company could be collateralised by way of a pledge agreement and associated collateral. In addition a risk participation agreement was executed which permits NTC London to participate in the credit risk arising on the Company's balance sheet.

Credit risk management and monitoring

The Company's objective is to maintain a 'low to moderate' credit risk exposure which it aims to achieve through its credit risk management process. The credit risk management and monitoring is conducted by specialised groups and is overseen by EBOC and EMC.

This credit risk management process is documented in the following policies which have been approved by the Company's Board of Directors: Credit Policy and the Provisioning Policy. Central to this process is approval and monitoring of exposures as detailed below. The nature of the Company's business is not to provide traditional commercial credit. Thus it is not intended that the Company will have an extensive portfolio of loans.

Approval and monitoring of money market placement exposures

All wholesale market counterparties and limits for money market placements are approved by NTC's Counterparty Risk Management Committee ("CRMC"). Under the global limits approved by CRMC, sub-limits have been established for use by the Company, subject always to local regulatory limits applicable to the Company. These limits are approved by the Company's Board and documented in the Credit and Large Exposure Policy, which is updated annually. The Global Financial Institutions ("GFI") credit team monitors exposures and recommends changes to the CRMC. Risk is mitigated for the Company by the selection of top tier counterparties who are usually systemically important banks.

Approval and monitoring of nostro agent banks, including sub-custodians

NTC's Sub-custodian Oversight Committee evaluates proposals for the appointment or replacement of sub-custodians and nostro bank agents for use by Northern Trust group companies. Upon submission by Sub-custodian Oversight Committee the CRMC is responsible for approving all such appointments and replacements. Similar to money market counterparties, the nostro agent banks are usually systemically important banks.

Approval and monitoring of credit for custody clients

If custody clients seek formal overdraft facilities, relationship managers initiate a request for limits to the GFI team. The GFI team, undertake credit analysis and present written credit submissions at the relevant committee (Global Financial Institutions Group Credit Approval Committee) for approval.

Overdraft exposures from custody clients are monitored by the credit team on a daily basis. This monitoring checks against limits and follows the clearance of overdrafts. Usually this is by the next day, but where there is any persistency the matter is escalated by the credit team for resolution.

Approval and monitoring of securities lending exposures

All securities lending counterparties and limits are approved by NTC's Senior Credit Committee. The Company acts as securities lending agent and provides 'enhanced' indemnities to its clients, in the event of a borrower default. All such loans of client securities are fully collateralised with cash, government securities or other types of collateral depending on the guidelines.

23 Financial risk management (continued)

b) Credit risk (continued)

Credit approvals – other considerations

Beyond the consideration of quantitative credit factors used in credit decisions the assessment process also takes account of the credit staff's qualitative judgement, to include such factors as reputation, corporate structure, strategic direction and integrity amongst others.

For the Company monitoring of the credit risk portfolio is performed monthly and reviewed by EMC and EBOC via a credit scorecard, profiling global custody overdraft volumes and trends, money market placements, nostro and sub-custodian balances, and securities lending exposures with key risk tolerances.

Concentration of risks of financial assets with credit risk exposure

1) Geographical sector

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by geographical region as at 31st December 2013. The table allocates exposures to regions based on the country of domicile of individual counterparties.

	Europe € '000	Canada and US € '000	Australia € '000	Asia € '000	Brazil € '000	Other regions € '000	Total € '000
Loans and advances to group banks	65,480	846,907	12,956	40,217	-	13,932	979,492
Cash at bank	174,046	2,958	2,516	46,050	8,649	23,213	257,432
Loans and advances to banks	1,213,311	0	(0)	0	0	0	1,213,311
Loans and advances to customers	10,878	704	9	82	-	(17)	11,656
As at 31st December 2013	1,463,715	850,569	15,481	86,349	8,649	37,128	2,461,891
Loans and advances to group banks	729,887	45,881	-	20	-	6	775,794
Cash at bank	49,408	1,343	3,919	46,767	29,234	5,745	136,416
Loans and advances to banks	1,217,690	-	-	-	-	-	1,217,690
Loans and advances to customers	33,436	-	9	-	-	1,791	35,236
As at 31st December 2012	2,030,421	47,224	3,928	46,787	29,234	7,542	2,165,136

In the event of countries exiting the Eurozone, the Company has put in place a number of measures aimed at protecting its assets and client assets. The Company has signed a Sub-custody Agreement with each of its appointed sub-custodians requiring them to segregate securities in the local market (in either omnibus or segregated accounts on behalf of the Company). Securities are recognised as client assets on the books of sub-custodians and registered in accordance with local market practice. The Company is actively monitoring its exposure to the Eurozone and specific counterparties within it.

2) Industry sector

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by the industry sectors of individual counterparties.

	Corporate € '000	Financial Institutions € '000	Total € '000
Loans and advances to group banks	-	979,492	979,492
Cash at bank	-	257,432	257,432
Loans and advances to banks	-	1,213,311	1,213,311
Loans and advances to customers	11,656	-	11,656
As at 31st December 2013	11,656	2,450,235	2,461,891
Loans and advances to group banks	-	775,794	775,794
Cash at bank	-	136,416	136,416
Loans and advances to banks	-	1,217,690	1,217,690
Loans and advances to customers	35,236	-	35,236
As at 31st December 2012	35,236	2,129,900	2,165,136

23 Financial risk management (continued)

c) Liquidity risk

Liquidity risk is the risk of being unable to meet the demands of clients to repay their deposits and other liabilities as and when they fall due for repayment. Northern Trust considers the full universe of liquidity risk types in assessing the presence and magnitude of liquidity risk. As the Company accepts customer deposits and undertakes investment of these funds it is subject to liquidity risk.

Liquidity risk management and monitoring

Under Northern Trust's risk framework, liquidity risk is governed by the Asset and Liability Policy Committee ("ALCO"). The EMEA Treasurer is a member of this committee. On an operating basis, the Company's activities are managed by the EMEA Treasury function with independent oversight from the Market and Liquidity Risk group within Corporate Risk Management.

The Company's liquidity risk is managed according to the 'NTGS Liquidity and Investment Policy Statement'. This sets out the governance, risk appetite, monitoring and reporting framework, including stress testing and contingency funding plans. This policy statement satisfies the liquidity risk systems and controls requirements of the PRA and has been approved by the Company's Board of Directors.

The Company primarily invests customer call cash deposits, arising from client global custody settlements activity in the interbank market, the European Central Bank via the Central Bank of Luxembourg or intragroup with FNIC. It has limited off-balance sheet activity relating primarily to securities lending, which is undertaken on an agency basis. The source of funding for the Company is diversified across its client base which consists of pension funds, corporate customers and financial institutions with an increasingly geographical spread across Europe. External money market placements of funds are to banks within a list of counterparties approved according to the 'NTGS Credit Policy Statement', taking concentration and diversification risk into account.

The following liquidity limits apply to the Company:

- The maturity limit for the investment of customer call deposits in the money markets is 35 days,
- Customer time deposits must be invested such that they are matched in tenor and currency, out to a maximum of 12 months,
- The Company's capital may be placed out in the money markets to a maximum tenor of three months, and
- A liquidity assets buffer needs to be maintained such that it is sufficient to meet the Individual Liquidity Guidance (ILG) level, which is calculated on a daily basis and based on a calculation prescribed by the PRA. The liquidity buffer for the Company is maintained as cash held in a Reserve Account at the Central Bank of Luxembourg.

Overall, Northern Trust manages liquidity on a consolidated basis with scenario analysis and stress testing being used to assess vulnerability to liquidity runs caused by a host of different severe scenarios, including short-term and protracted scenarios for institution specific and market-wide shocks, and combinations of these. The liquidity policies for the Company comply with the PRA system and control requirements for liquidity stress testing and contingency funding planning.

23 Financial risk management (continued)

c) Liquidity risk (continued)

1) Liquidity gap analysis

As at 31st December 2013	Within 1 month € '000	Due between 3 and 12 months € '000	Due between 1 and 2 years € '000	Perpetual € '000	Total € '000
Loans and advances to group banks	16 460	963,032	-	-	979 492
Cash at bank	257,432	-	-	-	257,432
Loans and advances to banks	-	1,213,311	-	-	1 213 311
Loans and advances to customers	11,656	-	-	-	11,656
Prepayments and accrued income	9 997	-	-	-	9 997
Fixed assets	-	-	-	250	250
Other assets	4 009	722	-	-	4 731
Total assets	299,554	2 177 065	-	250	2,476 869
Deposits by group banks	150,373	-	-	76,562	226,935
Deposits by other banks	146	-	-	-	146
Deposits by customers	2 062 987	-	-	-	2,062 987
Accruals	2 065	-	-	-	2 065
Other liabilities	19 187	-	-	-	19 187
Total liabilities	2 234 758	-	-	76 562	2,311 320
Overall liquidity risk gap	(1 935 204)	2,177,065	-	(76 312)	165 549

As at 31st December 2012	Within 1 month € '000	Due between 3 and 12 months € '000	Due between 1 and 2 years € '000	Perpetual € '000	Total € '000
Loans and advances to group banks	37,918	737,876	-	-	775,794
Cash at bank	136 416	-	-	-	136 416
Loans and advances to banks	-	1,217,690	-	-	1,217,690
Loans and advances to customers	35,236	-	-	-	35,236
Prepayments and accrued income	11 742	-	-	-	11 742
Fixed assets	-	-	-	96	96
Other assets	9 545	722	-	-	10 267
Total assets	230,857	1 956 288	-	96	2 187 241
Deposits by group banks	465,070	-	-	40 804	505 874
Deposits by other banks	50	-	-	-	50
Deposits by customers	1 471 810	-	-	-	1 471 810
Accruals	2,552	-	-	-	2,552
Other liabilities	19 001	-	-	-	19 001
Total liabilities	1 958 483	-	-	40,804	1,999 287
Overall liquidity risk gap	(1 727 626)	1 956 288	-	(40,708)	187 954

23 Financial risk management (continued)

c) Liquidity risk (continued)

2) Residual contractual maturities of financial liabilities

As at 31st December 2013

	Carrying amount € '000	Gross nominal outflow € '000	Less than one month € '000	One to three months € '000	Three months to one year € '000	Perpetual € '000
Deposits by group banks	226,935	228,647	150,346	316	1,423	76,562
Deposits by other banks	146	146	146	-	-	-
Deposits by customers	2,062,987	2,063,375	2,063,375	-	-	-
	<u>2,290,068</u>	<u>2,292,168</u>	<u>2,213,867</u>	<u>316</u>	<u>1,423</u>	<u>76,562</u>

As at 31st December 2012

	Carrying amount € '000	Gross nominal outflow € '000	Less than one month € '000	One to three months € '000	Three months to one year € '000	Perpetual € '000
Deposits by group banks	505,874	506,815	465,085	168	758	40,804
Deposits by other banks	50	50	50	-	-	-
Deposits by customers	1,471,810	1,472,486	1,472,486	-	-	-
	<u>1,977,734</u>	<u>1,979,351</u>	<u>1,937,621</u>	<u>168</u>	<u>758</u>	<u>40,804</u>

d) Market risk / trading risk

Trading risk is the risk of loss from changes in the value of trading positions. Northern Trust considers the full universe of trading risk types in assessing the presence and magnitude of trading risks. The Company does not have a trading book within the meaning of the PRA rule BIPRU 1.2.

There are, however, certain circumstances where the Company can take on foreign exchange risk. In particular, the Company may enter into foreign exchange contracts to pay fees and commissions to sub-custodian and agency banks. In addition, foreign exchange trades may be accepted from clients in jurisdictions where The Northern Trust Company, London Branch ("TNTC London") is not licensed to operate directly with clients. Any foreign exchange risk arising from such trades are closed out with TNTC London or with the market immediately, with the objective of the Company not running any material foreign exchange risk. The overall net foreign exchange position limit is €5,000,000. In addition, it should be noted that the Company does not transact in any options products and the size of the activity in the Company, relative to the size of the foreign exchange markets, renders concentration risk, product illiquidity risk and the other trading risk types immaterial.

Interest rate risk management and monitoring

Under Northern Trust's risk framework, interest rate risk in the banking book is governed by AI CO. The EMEA Treasurer is a member of this committee.

On an operating basis, the Company's activities are managed by the EMEA Treasury function with independent oversight from the Market and Liquidity Risk Group within Corporate Risk Management. Interest rate risk is managed by EMEA Treasury primarily through investment tenor limits, which are specified in the "NTGS Liquidity and Investment Policy Statement". A daily mismatch report is produced by Finance and distributed to the EMEA Treasurer and the Market and Liquidity Risk Group for review, with exceptions escalated to the appropriate risk committee.

Interest rate risk in the banking book is the risk resulting from sensitivity to changes in interest rates. In the case of the Company, potential interest rate risk in the banking book arises from the mismatch in maturity or re-pricing terms of customer deposits and asset placements. The Company maintains a prudent approach to funding client deposits, generating net interest income either through spreads or by a moderate amount of gapping. This risk is further mitigated by a relatively stable base of deposits for interest rate gapping. On a day-to-day operating basis, interest rate risk is low. However, on a strategic basis, low interest rate and flattening yield curve markets can impact net interest income margins.

23 Financial risk management (continued)

d) Market risk (continued)

Measurement and assessment of risk

Market risk is the risk resulting from sensitivity of net interest income to interest rate changes and changes in the value of trading positions from movement in foreign exchange and interest rates

1) Interest rate gap analysis

As at 31st December 2013

	Not more than three months € '000	Three to twelve months € '000	Non-interest bearing € '000	Total € '000
Loans and advances to group banks	974,018	-	5,474	979,492
Cash at banks	257,432	-	-	257,432
Loans and advances to banks	1,213,311	-	-	1,213,311
Loans and advances to customers	11,656	-	-	11,656
Prepayments and accrued income	1,588	-	8,409	9,997
Fixed assets	-	-	250	250
Other assets	-	-	4,731	4,731
Total assets	2,458,005	-	18,864	2,476,869
Deposits by group banks	150,373	76,562	-	226,935
Deposits by other banks	146	-	-	146
Deposits by customers	2,062,875	-	112	2,062,987
Accruals	406	-	1,659	2,065
Other liabilities	-	-	19,187	19,187
Total liabilities	2,213,800	76,562	20,958	2,311,320
Overall interest rate gap	244,205	(76,562)	(2,094)	165,549

As at 31st December 2012

	Not more than three months € '000	Three to twelve months € '000	Non-interest bearing € '000	Total € '000
Loans and advances to group banks	758,084	-	17,710	775,794
Cash at banks	136,416	-	-	136,416
Loans and advances to banks	1,217,690	-	-	1,217,690
Loans and advances to customers	35,236	-	-	35,236
Prepayments and accrued income	480	-	11,262	11,742
Fixed assets	-	-	96	96
Other assets	-	-	10,267	10,267
Total assets	2,147,906	-	39,335	2,187,241
Deposits by group banks	465,070	40,804	-	505,874
Deposits by other banks	15	-	35	50
Deposits by customers	1,471,654	-	156	1,471,810
Accruals	436	-	2,116	2,552
Other liabilities	-	-	19,001	19,001
Total liabilities	1,937,175	40,804	21,308	1,999,287
Overall interest rate gap	210,731	(40,804)	18,027	187,954

23 Financial risk management (continued)

d) Market risk (continued)

2) Sensitivity of reported equity to interest rate movements

The following table shows the (increase)/decrease in reported equity due to an increase or decrease in market interest rates, assuming a constant balance sheet

As at 31st December 2013

	Not more than three months € '000	Three to twelve months € '000	Total € '000
200 bp parallel increase	(611)	624	13
200 bp parallel decrease	1,117	(1 156)	(39)

As at 31st December 2012

	Not more than three months € '000	Three to twelve months € '000	Total € '000
200 bp parallel increase	(558)	595	37
200 bp parallel decrease	571	(617)	(46)

3) Net currency position analysis

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31st December 2013. Included in the table are the Company's financial instruments at carrying amounts, categorised by currency.

As at 31st December 2013

	EUR € '000	GBP € '000	JPY € '000	NOK € '000	USD € '000	Other € '000	Total € '000
Assets							
Loans and advances to group banks	12,131	34 844	34,596	573	833,943	63 405	979 492
Cash at banks	73 340	85,269	11,456	3 226	58	84,083	257 432
Loans and advances to banks	1,045 000	0	(0)	149 292	0	19,019	1,213 311
Loans and advances to customers	1 805	167	49	10	674	8 951	11,656
Prepayments and accrued income	3 896	4,417	-	560	953	171	9,997
Fixed assets	250	-	-	-	-	-	250
Other assets	(734)	2,750	-	342	1 906	467	4,731
	<u>1 135 688</u>	<u>127 447</u>	<u>46 101</u>	<u>154 003</u>	<u>837,534</u>	<u>176 096</u>	<u>2 476 869</u>
Liabilities							
Deposits by group banks	213,399	-	2,076	-	-	11 460	226 935
Deposits by other banks	-	-	-	-	-	146	146
Deposits by customers	743 271	123 913	44 030	153,398	835,035	163,340	2 062 987
Accruals	782	203	15	261	346	458	2,065
Other liabilities	12 496	3,331	(20)	344	2 159	877	19 187
	<u>969,948</u>	<u>127 447</u>	<u>46,101</u>	<u>154,003</u>	<u>837,540</u>	<u>176 281</u>	<u>2 311 320</u>
Net on-balance sheet financial position	<u>165,740</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6)</u>	<u>(185)</u>	<u>165,549</u>

23 Financial risk management (continued)

d) Market risk (continued)

As at 31st December 2012	EUR € '000	GBP € '000	JPY € '000	NOK € '000	USD € '000	Other € '000	Total € '000
Assets							
Loans and advances to group banks	20 157	-	-	24 974	654,584	76 079	775,794
Cash at banks	31,230	6 873	22,758	2 360	25	73 171	136 417
Loans and advances to banks	899 999	38,014	0 00	264,666	(0)	15 010	1,217,689
Loans and advances to customers	5,655	2,816	34	4	25 378	1 349	35 236
Prepayments and accrued income	4 602	4,544	1	629	1,639	327	11,742
Fixed assets	96	-	-	-	-	-	96
Other assets	1,036	6,027	-	175	2,793	236	10,267
	<u>962,775</u>	<u>58 274</u>	<u>22,793</u>	<u>292 808</u>	<u>684 419</u>	<u>166 172</u>	<u>2 187 241</u>
Liabilities							
Deposits by group banks	282 804	-	-	-	218,109	4 961	505 874
Deposits by other banks	12	-	-	-	-	38	50
Deposits by customers	478 462	55,461	22 779	291 972	462,986	160 150	1 471 810
Accruals	961	234	33	439	312	573	2,552
Other liabilities	12,582	2,579	(19)	397	3 012	450	19 001
	<u>774 821</u>	<u>58 274</u>	<u>22 793</u>	<u>292 808</u>	<u>684 419</u>	<u>166 172</u>	<u>1 999 287</u>
Net on-balance sheet financial position	<u>187 954</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,954</u>

e) Operational risk

Operational risk is the risk of loss from inadequate or failed internal processes, people and systems or from external events. Operational risk typically arises when transactions activity is not executed, settled or recorded accurately, or on a timely basis, or where there has been a breach of contractual commitments with clients.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

Operational risks within the business are identified and assessed using a standard Risk and Control Self Assessment ("RCSA") process. The RCSA process analyses the risks that are inherent in the business environment and processing activities and their respective internal control adequacy.

All core processing functions are required to undertake an initial full RCSA process and complete the assessments periodically on a risk based approach thereafter.

The outcome of the RCSA process is a risk weighted control score. Where necessary, these will drive a risk mitigation action plan. RCSA data and action plans are recorded in the Corporation's OpVar system and are monitored and tracked by the Operational Risk Committee.

The Company uses a proprietary Benchmark Capital Model ("BCM") to assess its operational risk capital. BCM employs actual loss history from the relevant business activities of Northern Trust as a whole, supplemented by key risks scenarios built for the Company by business management and risk management teams. This data is modelled to derive a loss distribution curve and capital is provided as the 1 in 200 year confidence level. This approach is informed by the relevant data and programs from Northern Trust's operational risk framework, including RCSA, loss history and scenario analysis, in addition to any relevant risk metrics.

f) Other risks

Strategic risk

Strategic risk is the risk of loss arising from adverse effects of business decisions, improper implementation of business decisions, unexpected external events or damage to the reputation of the Corporation and of the UK Entities from negative public opinion. Strategic risk within Northern Trust is managed and overseen both at the Northern Trust Corporation level and at the Company's level.

Pension liability risk

Pension liability risk is not a material risk for the Company.

23 Financial risk management (continued)

g) Fair values of financial instruments

The Company measures fair values using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The only balance sheet items carried at fair value are the derivatives held for hedging purposes recognised in other assets and other liabilities and they are both measured using level 2 of the fair value hierarchy. Level 2 is defined as input other than quoted prices included within Level 1, which is defined as valued using quoted prices in active markets for identical assets, that are observable for the assets and liabilities. Level 3 is defined as valued by reference to valuation techniques using inputs that are not based on observable market data.

Due to the short term maturity of the Company's financial instruments, other than the derivatives, the carrying amount is a reasonable approximation of its fair value and as such the fair values have not been separately disclosed.

h) Capital management

The Company's lead regulator, the PRA, sets and monitors capital requirements for the Company as a whole. The parent company is also subject to PRA supervision, through its inclusion in Northern Trust Global Services Limited's UK regulatory group. The ultimate parent company is directly supervised by its local regulator.

The Company's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital and retained earnings, and
- Tier 2 capital, which is subordinated debt.

The Company's capital position as at 31st December

	2013 £ '000	2012 € '000
Tier 1 capital	165,549	187,954
Tier 2 capital	76,562	40,804
Total capital	242,111	228,758

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company has complied with all externally imposed capital requirements throughout 2013.

There have been no material changes to the Company's management of capital during the period.

24 Commitments and guarantees

The Company had issued no commitments nor provided any guarantees at year end (2012: nil).

25 Holding company

The Company is a subsidiary of Northern Trust Holdings Limited, incorporated in the United Kingdom. The Annual accounts can be obtained from 50 Bank Street, Canary Wharf, London, E14 5NT.

The smallest and largest group in which the results of the Company are consolidated is that headed by the Northern Trust Corporation, incorporated in the United States of America. The consolidated accounts of the Northern Trust Corporation are available to the public and may be obtained from Northern Trust Corporation, 50 South LaSalle Street, Chicago, Illinois.

The ultimate holding company in which the results of the Company are consolidated is that headed by Northern Trust Corporation, incorporated in the United States of America. The consolidated accounts of this group are available to the public and may be obtained from Northern Trust Corporation, 50 South LaSalle Street, Chicago, Illinois.