NORTHERN TRUST

Northern Trust Global Services Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2017

Registered number: 04795756

Company Information

Directors	Ms C. Aitchison Mr J. Davie Mr T. Glaysher Mr D. Marlborough Mr J. Misselbrook Ms T. Parker Mr J. Rowland Mr D. Wicks Mr. J. Wright
Company secretary	Mr. M.Wright, Ms H. Flanagan
Registered number	04795756
Registered office	50 Bank Street Canary Wharf London E14 5NT
Independent auditors	KPMG LLP 15 Canada Square London E14 5GL

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Strategic Report
For the Year Ended 31 December 2017

In accordance with Section 414A (1) of the Companies Act 2006, we have prepared the Strategic report which includes a review of Northern Trust Global Services Limited's ("the Company") business and future developments, and a description of the principal risks and uncertainties facing the Company.

Business and strategy

The Company aims to be a leading provider of investment services solutions to sophisticated global clients, to deliver innovative, high quality front, middle and back office solutions, combined with an outstanding client experience. It seeks to drive strong financial performance through superior risk management, optimal productivity and engaged employees.

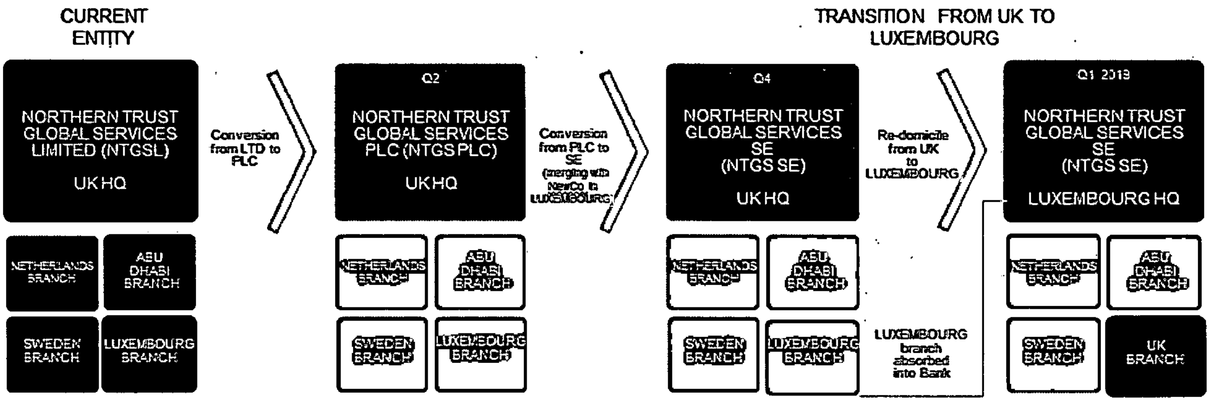
The Company was incorporated in 2003 in order to provide investment servicing solutions to clients across the European Economic Area ("EEA") using financial services passporting provisions. The Company is authorized by the UK Prudential Regulatory Authority ("PRA") as a deposit-taking institution and is regulated by the PRA and the UK Financial Conduct Authority ("FCA"). The Company provides asset servicing and fund administration services including depositary, global custody, securities lending, fund accounting, transfer agency and investment operations outsourcing, predominantly to UK and other EEA domiciled clients.

Brexit Response

In June 2016 the UK held a referendum under which a majority of votes supported the UK leaving the European Union ("EU") and the UK Government triggered the formal withdrawal process on 29 March 2017, with the exit to occur by 29 March 2019. Whilst the terms of the UK's withdrawal are subject to negotiation, it is anticipated that the Company will lose its right to passport services in the EEA. In response, Northern Trust established a programme to minimise the level of disruption and administrative burden to existing clients and counterparties (the "Programme"). The Programme evaluated a handful of potential locations in which a new EU bank might be headquartered, and, based on this work, Luxembourg was selected.

Analysis performed through the Programme concluded that the Company should convert to a Societas Europaea ("SE") pursuant to Council Regulation (EC) No 2157/2001 (the "SE Regulation") and relevant national rules. Following such a conversion and, subject to authorisation as a Luxembourg credit institution, the transfer of the SE's registered office from the UK to Luxembourg offered the most effective method.

The following provides a simplified representation of the mechanism of transfer.



In March 2018 the Company applied to the Commission de Surveillance du Secteur Financier ("CSSF") to become a Luxembourg-licensed credit institution at the point of transferring its registered office.

UBS Asset Management Fund Administration Acquisition

On 1 October 2017, the Company acquired the fund administration business of UBS Asset Management, a leading investment fund administrator in Luxembourg and Switzerland. The acquisition included the purchase of shares in a newly formed Swiss company, Northern Trust Switzerland AG ("NTSAG"), operating the Swiss business and acquisition of the assets of the Luxembourg fund administration business into the Company's Luxembourg Branch. The balance sheet and financial results of NTSAG have not been consolidated within these financial statements. In order to fund the acquisition the Company made an allotment of 168,213,755 shares of €1 each at par value, to its parent Northern Trust Holdings Limited.

In June 2017 the Company received authorisation from the CSSF to act as central administration agent in relation to investment funds .

The acquisition represents a significant opportunity to broaden the Company's scale, products and market reach in these key jurisdictions and will:

- Establish the Company as a top10 asset servicing provider in Luxembourg in terms of assets under administration. The transaction adds further depth and presence in the Luxembourg fund domicile which is a strategic priority for Northern Trust
- Through its newly acquired subsidiary NTSAG, position the Company as a leading administrator by assets in Switzerland
- Build on the Company's existing Continental Europe market presence.

Strategic Report (continued)
For the Year Ended 31 December 2017

Financial key performance indicators

The Company's client base consists of asset owners and managers across Europe, Middle East and Africa ("EMEA").

	2017 €000	2016 €000	Change €000	Change %
Turnover	**128,554**	**98,337**	30,217	31
Administrative expenses	**89,521**	**66,543**	22,978	35
Profit before tax	**51,267**	**39,549**	11,718	30
Net assets	**440,187**	**233,041**	207,146	89

The Company's key performance indicators include Assets Under Custody ("AUC") and Assets under Administration, both of which recorded significant growth in 2017.

- Client Assets Under Custody ("AUC") have grown to €563 billion in 2017 (2016: €495 billion)
- Assets Under Administration ("AUA") have grown to €258 billion in 2017 (2016: €129 billion).

Turnover was driven by a €31m increase in fees and commissions income with €10m arising from the acquisition of the UBS fund administration business in Luxembourg. Custody and depositary fees increased by €12m, predominantly from new clients on-boarded since the fourth quarter of 2016.

Total administrative expenses increased by €23m year on year, driven by increased staff costs from the acquisition of the UBS fund administration business in Luxembourg, in addition to legal and consultancy costs related to the acquisition. Average employee numbers increased to 76 in 2017, from 43 in 2016, almost entirely due to the acquisition of the UBS fund administration business which added 133 full-time equivalent staff in Luxembourg. The majority of 2017 administration expenses relate to the Company's participation in Northern Trust's intra-group transfer pricing mechanism.

The Company reported a pre-tax profit of €51.3m (2016: €39.5m) for the year ended 31 December 2017.

The Company's balance sheet increased in size by €3.7bn as a result of deposits by other Northern Trust group bank entities, leading to an increase in placements with the Banque Centrale du Luxembourg. Net assets increased by €207m on prior year, reflecting the increase in share capital of €168m and the net profit achieved during 2017.

Principal risks and uncertainties

The principal risks and uncertainties arise from the political and economic uncertainty surrounding Brexit, the integration of the recently acquired fund administration business from UBS and the complex regulatory environment and operational risk arising from servicing client activities.

The terms of the UK's departure from the EU have not yet been agreed and may impact the Company's plans to support client activities. These plans include an application to establish a UK branch of the newly-authorised Luxembourg bank in accordance with a draft Supervisory Statement issued by the PRA, confirming it to be open to hosting branches of international banks where possible. Until political and regulatory negotiations conclude however, the authorisations required by the Company following the UK's withdrawal remain uncertain.

UBS Asset Management's Luxembourg and Swiss fund administration business will be integrated into the Company's operating platforms during a transition period of two to three years. This planned integration will be underpinned by Northern Trust's proven global operating model with oversight from the Company's Board of Directors and its sub-committees.

The implementation of the EU's Markets in Financial Instruments Directive ("MiFID II"), has applied in large part since 3 January 2018. This has affected many of the investment markets in which the Company provides services and the way it transacts with market counterparties and other customers. Some final rules and guidance on the application of MiFID II are yet to be published, and so we anticipate continuing development of application of the rules into 2018.

From 25 May 2018, EU data protection laws throughout the EU will be replaced by a single General Data Protection Regulation ("GDPR") which enhances the rights and protections available to data subjects and provides for significant financial penalties for data protection breaches and non-compliance. The Company is committed to meeting its own data protection responsibilities and to supporting its clients with their own requirements.

The primary risk that the Company is exposed to is operational risk that may arise from, but is not limited to, errors related to transaction processing, breaches of controls and compliance requirements, fraud or business interruption due to system failures. Operational risk can also include breaches of our technology and information systems resulting from unauthorized access to confidential information such as cyberattacks, as well as potential legal or regulatory actions that could arise as a result of noncompliance with applicable laws and/or regulatory requirements. 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, which is in line with the Company's risk appetite.

Strategic Report (continued)
For the Year Ended 31 December 2017

The Company is conscious that it is exposed to Conduct Risk arising from the behaviours and actions of its employees when conducting business that may cause harm to clients or financial markets. The Company has put in place a risk appetite for Conduct Risk and monitors performance against a suite of Conduct Risk metrics. It has also adopted a programme of training for all employees to ensure understanding of requirements.

This report was approved by the board on 22 March 2018 and signed on its behalf.

Mr J. Davie
Director

Directors' Report
For the Year Ended 31 December 2017

The Directors present their report and the financial statements for the year ended 31 December 2017.

Principal activities

The principal activities of the Company are as outlined in the Strategic Report.

Results and dividends

The profit for the year, after taxation, amounted to €38,932 thousand (2016: €31,026 thousand). The Directors have elected not to pay a dividend this year (2016: €Nil).

Assets under custody

In the normal course of business, the Company holds non-cash assets in a fiduciary or agency capacity for its clients. In accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101"), the assets are not those of the Company and are not included in its balance sheet.

Financial risk management

The Company's Risk Committee, comprised of the Company's Independent Non-Executive Directors, is responsible for assisting the Board in its oversight of risk. The Board provides the Risk Committee with written policies on specific areas such as interest rate risk, liquidity risk, foreign exchange risk, operational risk and credit risk. A detailed description of the Company's financial risk management is provided in note 32 to the Financial Statements.

The Internal Audit function of the Northern Trust Corporation is responsible for the independent review of both risk management and the control environment of the Company. The Company's Internal Audit function is overseen by the Company's Audit Committee, consisting of the Company's Independent Non-Executive Directors.

Employee Involvement

The Company actively encourages employee involvement and open communication between employees and their managers to ensure that questions and concerns arising during the course of employment can be aired and where possible, resolved quickly to the satisfaction of all. Communications are frequently sent out to all staff regarding changes and employees are encouraged to come forward with any issues or concerns they may have. The Company is committed to an honest and open culture and has an established whistleblowing policy. The number of *Full Time Equivalent (FTE) staff at the year end was* 180 (2016: 38). This comprised: Abu Dhabi 4 (2016:4), Luxembourg 150 (2016:11), Sweden 7 (2016:6) and Netherlands 19 (2016:17). The acquisition of the UBS fund administration activities added 133 FTE in Luxembourg.

Pillar 3 disclosures

The Company is required to publish details of its risks, capital and risk management on an annual basis ("Pillar 3 disclosures") in accordance with Part Eight of the Capital Requirements Regulation (EU) No. 575/2013. The Company's most recent Pillar 3 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 are set out in the Principal activities section above and other factors likely to affect its future development and position are outlined within the Strategic Report. The Company has made a profit for 2017 and is projected to continue to be profitable 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. Consideration has been given to the financial position of the Company's ultimate parent, Northern Trust Corporation.

The Company reviews its Internal Capital Adequacy Assessment Process ("ICAAP") on an annual basis which provides information on how risk is managed and mitigated. It also sets out current and future capital requirements, taking into account regulatory and business development.

The Directors have considered the uncertainty of "Brexit" as outlined in the Strategic Report.

On the basis of their assessment of the Company's financial position and written assurance from the Northern Trust Corporation that it will continue at all times to provide the Company with sufficient liquidity and funding to remain a going concern, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. The Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' Report (continued)
For the Year Ended 31 December 2017

Post balance sheet events

In March 2018 the Company applied to the CSSF to become a credit institution concurrently with the intention to re-domicile to Luxembourg.

There have been no other significant events affecting the Company.

Disclosure of Information to auditors

Each of the persons who are Directors at the time this Directors' report is approved has confirmed that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors

The Directors who served during the year were:

Ms C. Aitchison
Ms P. Biggs (resigned 14 June 2017)
Mr J. Davie
Mr T. Glaysher
Mr W. Leech (resigned 6 June 2017)
Mr D. Marlborough
Mr J. Misselbrook
Ms T. Parker (appointed 6 June 2017)
Mr J. Rowland
Mr. D. Wicks
Mr J. Wright (appointed 22 November 2017)

Political contributions

The Company made no political donations and incurred no political expenditure during the year (2016: Nil).

Auditors

The auditor, KPMG LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 22 March 2018 and signed on its behalf.

Mr J. Davie
Director

Directors' Responsibilities Statement
For the Year Ended 31 December 2017

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), including FRS 101 Reduced Disclosure Framework.

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 in that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 to enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

1. Our opinion is unmodified

We have audited the financial statements of Northern Trust Global Services Limited ("the Company") for the year ended 31 December 2017 which comprise the profit and loss account, balance sheet, statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors on 12 January 2004. The period of total uninterrupted engagement is for the 14 years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We have reviewed our assessment of risks and our audit approach to ensure it continues to focus appropriately on the identified significant audit risks. Our planning and risk assessment has been assisted by a number of detailed regular meetings with Finance, Risk, Audit Services and senior management. We also take input from local audit teams and internal audit reports to update our understanding.

Our risk assessment draws upon our historic knowledge of the business, the industry, the wider economic, regulatory and political environment in which Northern Trust Global Services Limited operates and its interaction with other group entities within the Northern Trust Corporation group. There is also a significant impact on our audit this year due to the acquisition by the Company of UBS Asset Management's fund administration servicing units in Luxembourg and Switzerland.

We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Acquisition of a new business *(new significant risk, non-recurring)*

Key audit matter	Our procedures to address the key audit matter

On 2 October 2017, Northern Trust Global Services Limited completed the acquisition of UBS Asset Management's fund administration servicing units in Luxembourg and Switzerland for a total initial consideration of € 155.8m.
 	
The acquisition of UBS Asset Management's fund administration servicing units as disclosed in note 17 of the financial statements is a key audit matter due to the size of the acquisition and the complexities inherent in business acquisitions.
 	
The Directors have considered that they have acquired a business in both locations but, because Northern Trust Global Services Limited does not prepare consolidated accounts and the Switzerland acquisition is structured as a purchase of a company, the Directors considered that business combination accounting for Northern Trust Global Services Limited only applies to the Luxembourg entity.
 	
The Luxembourg business has been consolidated on a line by line basis whilst the Swiss business is represented as an investment in a subsidiary company.
 	
The Directors have completed a process, with the assistance of external advisors, to fair value the individual assets and liabilities of the Luxembourg business, and to fair value the consideration (which includes deferred and contingent elements) with the difference between the fair value of consideration and net assets being recognised as goodwill. An intangible asset of € 85.5m, an investment in subsidiary of € 42.5m and residual goodwill of € 33.4m were established as part of the transaction.
 	
This process involves significant judgement in relation to the application of IFRS 3 to the Luxembourg, but not the Swiss, business, the recognition of separately identifiable assets and the estimation of values for separately identifiable assets and liabilities, given the estimation techniques involve the forecasting of future uncertain cash flows and the use of appropriate discount rates. Further judgement was required to estimate the contingent consideration payable as at 31 December 2017, which is based on adjustment for confirmed client movements for certain dates and adjustment for unconfirmed client movements (pipeline contracts).
 	
The key judgments and estimates used by the Directors related to:
- The use of business combination accounting for the Luxembourg but not the Swiss business
- The identification of two separately identifiable intangible assets, with different characteristics, such as useful lives, margins, attrition rates and contributory asset charges being the UBS Funds and Third Party Funds
- The fair value of those two intangible assets, which are in turn determined by:
    - The estimates of future cash flows in relation to those income streams
    - The discount rate that should be applied to those streams
	Our audit procedures to assess the accounting treatment of the acquisition included the following:
	
	• We evaluated the Directors' assessment of both acquisitions as business acquisitions in relation to IFRS 3: Business Combinations.
	
	• We read the sale and purchase agreement to understand the key terms and conditions and to confirm our understanding of the transaction.
	
	• We involved KPMG valuation specialists to assist in evaluating the appropriateness of the Directors' identification of assets acquired and liabilities assumed in the acquisition by reviewing the clauses laid out in the Asset Purchase Agreement, particularly to challenge whether there should be any further intangible assets recognised.
	
	• We involved KPMG valuation specialists to assist in evaluating the reasonableness of assumptions used in the determination of the fair value of assets acquired, the liabilities assumed and the split of consideration. This included assessing the attrition rates, the contributory asset charges, the useful life for customer relationships and the discount rates applied against historic industry statistics and current market data.
	
	• We evaluated the reasonableness of cash flow forecasts used in the determination of the fair value of assets acquired and liabilities assumed, with the benefit of a KPMG valuation specialist. This included assessing the forecast growth in funds under management and the growth in revenue.
	
	• We considered the appropriateness of the disclosures in the financial statements in relation to the acquisition.
	
	Certain of the audit procedures in relation to the UBS Asset Management's fund administration acquisition were undertaken by the KPMG member firm in Chicago ("KPMG US") who are the external auditors of the ultimate parent company. This involved both the general audit team and valuation specialists. We were involved in setting the direction of their audit work and inspected their working papers on site in Chicago. We frequently communicated with them throughout the audit to monitor their progress and deal with any issues arising.
	
	We used our own UK-based valuation specialists to support our risk assessment procedures and to help us provide challenge to the key judgements and estimates made by the Directors.
	
	Our results
	
	We found the Company's accounting treatment of the acquisition including the key judgments and estimates to be acceptable.

- The estimate of contingent consideration as at 31 December 2017 Any changes in key assumptions, or the misapplication of business combination accounting principles, may materially affect the valuation of intangibles and therefore the goodwill recorded as a result of the acquisition. This allocation is important as the ongoing accounting treatment of intangible assets and goodwill diverges, as explained in note 17. *Refer to the critical accounting estimates and judgements in note 37, the disclosures of intangibles in note 16.*	

Revenue recognition – Trust fee income *(recurring risk)*	
Key audit matter	Our procedures to address the key audit matter
Trust fee income represented 91.8% (2016: 93.4%) of the total revenue of the Company for the year ended 31 December 2017. Trust fee income principally comprises custody fees, depository fees, fund administration fees, outsourcing fees, securities lending and outsourcing fees as disclosed in note 4 of the financial statements. A significant portion of the fee billing process is automated, and we do not consider there to be a significant risk to these processes. These primarily relate to custody fees, depository fees and securities lending fees which together amount to € 81.0m (2016: € 68.6m). However, there are also processes where manual intervention is required. Trust fee income has been accrued monthly based on management's estimation of customer's transaction activities during the year. The manual accrual calculations include the Directors estimation which rely on supporting documentation (i.e. fee type, effective date, accounting policy and any other relevant information). We have identified a significant risk of error which includes a risk of error due to fraud with respect to these trust fee revenue streams. This risk is specific to manual trust fees and manual trust fee accruals. This is primarily due to the manual nature of the process and due to the fact that there is some degree of management estimation utilised to develop non-automated accruals. We exclude those fees that have been already settled in cash in year by clients. We also exclude fees booked in relation to the Luxembourg businesses purchased from UBS due to the relative immateriality of this income stream, being only the quarter from acquisition on October 2, 2017.	For revenue where manual intervention is required, where either invoices which have not yet been paid or fee accruals have been booked, we have conducted the following audit procedures: • We assessed the design, implementation and operating effectiveness of key internal controls which govern trust fee revenue recognition. • We tested the reconciliation of the relevant sub-ledger balances to the general ledger by understanding the nature of material reconciling items through discussions with management, and then obtaining supporting document or other evidence to determine whether they were resolved appropriately. • For a sample of fees, where the invoice has not yet been paid, we agreed the rate charged to the client agreement and performed a recalculation of the invoice. • We obtained a breakdown of the accrued fees as at year end and, for a sample of accruals, agreed the rate/fee percentage applied to the client to the client agreement and recalculated the accrual. • To test that invoices were recorded in the correct accounting period, we obtained a list of invoices issued to clients' pre- and post-year end and, on a sample basis and we checked that the period of service pertaining to the invoice was recorded in the appropriate accounting period. *Our results* The results of our testing were satisfactory and we considered the revenue recognised to be acceptable (2016: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at €15.6 million (2016: €12.9 million), determined with reference to a benchmark of net assets (representing 3.5 per cent of the benchmark (2016: 6 per cent)).

Net Assets was considered an appropriate benchmark for the following reasons:

- The primary users of the financial statements of Northern Trust Global Services Limited are the ultimate parent company, the regulators, its market counterparties and clients. Net Assets is a relevant measure for all users, as the level of Net Assets is indicative of capital stability and financial health.
- Neither Operating Profit nor Total Revenue are considered as appropriate as Net Assets as they are impacted significantly by internal transfer pricing mechanisms.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements affecting Northern Trust Global Services Limited's profit exceeding €0.8 million (2016: €0.6 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the Bank's registered office in London and the Group head office in Chicago. Our network firm in Chicago performed testing on certain processes and controls, the most significant being:

i) Certain aspects of acquisition accounting as noted under Key Audit Matters
ii) Transfer pricing
iii) Certain IT general and application controls
iv) Related party balances and transactions

We evaluated the scope of the work to ensure it addressed the risks relevant to our audit, monitored the audit work performed by our network firm throughout the course of the audit, and visited the Chicago audit team in February 2018 to assess the quality of the audit work performed.

In addition, the Company operates across a number of countries through branches in Luxembourg, Netherlands, Sweden and the United Arab Emirates The majority of the business activity takes place in the UK, the Luxembourg Branch and the Netherlands Branch.

The Luxembourg and Netherlands branches have been determined to be the only significant locations in addition to the UK as demonstrated by the table.

31 December 2017	UK	Luxembourg ex-UBS	Luxembourg other	Netherlands	Sweden	UAE
Proportion of Total Company Assets (%)	34.94	1.35	63.66	0.00	0.03	0.02
Proportion of Total Company Liabilities (%)	16.97	0.00	82.95	0.07	0.00	0.01
Proportion of Total Company Revenue (%)	76.89	6.93	10.77	5.41	0.00	0.00

31 December 2016	UK	Luxembourg	Netherlands	Sweden	UAE
Proportion of Total Company Assets (%)	45.70	54.29	0.00	0.00	0.01
Proportion of Total Company Liabilities (%)	39.84	59.97	0.17	0.00	0.02
Proportion of Total Company Revenue (%)	82.25	11.77	5.98	0.00	0.00

As a result, we instructed the KPMG Luxembourg audit team to perform audit procedures on certain account balances of the Luxembourg branch. Materiality of €9.4 million (2016: €7.8 million) was applied to this audit work. We were involved in setting the direction of their audit work, and we considered their reporting to us and inspected their working papers on site in Luxembourg in March 2018. We communicated with them throughout the audit to monitor their progress and deal with any issues arising. The Luxembourg ex-UBS amounts and the Netherlands branch revenue have been audited by us.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the Directors' report

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and in the Directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Company, 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 the Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified relevant areas of laws and regulations that could have a material effect on the financial statements from our sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, payments, conduct, money laundering, sanctions list and financial crime and market abuse regulations recognising the financial and regulated nature of the bank's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to *enquiry of the Directors and other management and inspection of regulatory correspondence.* We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Mike Peck

Michael Peck (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
E14 5GL

22 March 2018

Profit and Loss Account
For the year ended 31 December 2017

	Note	2017 €000	2016 €000
Interest receivable	2	**34,952**	21,388
Interest payable	3	**(24,438)**	(13,757)
Net interest income		**10,514**	7,631
Fees and commissions income	4	**141,373**	110,263
Fees and commissions expense	5	**(12,819)**	(11,926)
Other operating income	6	**1,720**	124
Administrative expenses	7	**(89,521)**	(66,543)
Operating profit		**51,267**	39,549
Tax expense on ordinary activities	11	**(12,335)**	(8,523)
Profit for the financial year		**38,932**	31,026

The notes on pages 17 to 53 form part of these financial statements.

All income and expenses arise from continuing activities.

Statement of other comprehensive income
For the year ended 31 December 2017

	2017 €000	2016 €000
Profit for the financial year	**38,932**	31,026
Total comprehensive income for the year	**38,932**	31,026

Balance Sheet
As at 31 December 2017

	Note	2017 €000	2016 €000
Assets			
Cash and Cash equivalents	19	**401,654**	340,431
Loans and advances to group banks	20	**1,766,098**	1,070,346
Loans and advances to other banks		**6,090,666**	3,097,513
Loans and advances to customers	21	**24,152**	20,747
Investment securities	22	**201,962**	397,024
Investments in subsidiaries	18	**42,556**	-
Prepayments and accrued income	23	**31,126**	22,516
Tangible fixed assets	15	**569**	832
Goodwill	14	**33,398**	-
Intangible fixed assets	16	**83,973**	8
Other assets	24	**28,344**	27,741
Total assets		**8,704,498**	4,977,158
Liabilities			
Deposits by group banks		**4,313,025**	1,905,350
Bank overdrafts		**35**	4,712
Deposits by customers		**3,808,048**	2,731,630
Accruals and deferred income	25	**8,931**	3,313
Provisions	26	**128**	139
Other liabilities	27	**134,144**	98,973
		8,264,311	4,744,117
Equity			
Called up share capital	30	**310,506**	142,292
Retained Earnings	29	**129,681**	90,749
Total Equity		**440,187**	233,041
Total liabilities and equity		**8,704,498**	4,977,158

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 22 March 2018.

Mr J. Davie
Director
Company number 04795756

The notes on pages 17 to 53 form part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2017

	Share capital	Retained earnings	Total equity
	€000	€000	€000
At 1 January 2017	142,292	90,749	233,041
Comprehensive income for the year			
Profit for the year	-	38,932	38,932
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	38,932	38,932
Shares issued during the year	168,214	-	168,214
Total contributions by and distributions to owners	168,214	-	168,214
At 31 December 2017	310,506	129,681	440,187

Statement of Changes in Equity
For the Year Ended 31 December 2016

	Share capital	Retained earnings	Total equity
	€000	€000	€000
At 1 January 2016	142,292	59,723	202,015
Comprehensive income for the year			
Profit for the year	-	31,026	31,026
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	31,026	31,026
At 31 December 2016	142,292	90,749	233,041

The notes on pages 17 to 53 form part of these financial statements.

Notes to the Financial Statements
For the Year Ended 31 December 2017

1. Accounting policies

1.1 Basis of preparation of Financial statements

Northern Trust Global Services Limited is a company incorporated and domiciled in the United Kingdom.

The Company meets the requirements as a financial institution to apply Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101"). The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS101") and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see Note 37).

The following principal accounting policies have been applied consistently to all periods presented in the financial statements:

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets; and
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

As a financial institution, the Company is not exempt from IFRS 7 and IFRS 13 fair value measurement.

1.3 Exemption from consolidation

The Company's ultimate parent company includes the Company in its consolidated financial statements, which are prepared under a basis equivalent to adopted IFRS. Accordingly, the Company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare group financial statements as the Company and its subsidiary undertaking are included in the consolidated statement for a larger group drawn up for the same date in a manner equivalent to that prescribed by EU Seventh Directive (83/349/EEC). Therefore, these financial statements present information about the Company as an individual undertaking and not about its group.

Notes to the Financial Statements
For the Year Ended 31 December 2017

1. Accounting policies (continued)

1.4 Future accounting developments

There have been and are expected to be a number of changes to the Company's financial reporting after 31 December 2017 as a result of amended or new accounting standards that have been or will be issued by the IASB. The key changes are as follows:

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments*. IFRS 9 includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements. The Company plans to adopt the standard using the modified retrospective method on its effective date of January 1, 2018.

Classification and measurement
Upon adoption, the Company will measure financial assets at amortised cost, fair value through profit or loss, or fair value through other comprehensive income based on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement requirements are not expected to significantly impact the Company's statement of financial position and results of operations upon adoption of IFRS 9.

Impairment
In 2017, the Company focused efforts on an impact assessment related to impairment of financial assets under IFRS 9. Based on this assessment, the Company's methodology and process to evaluate whether a financial asset is impaired and the amount of the impairment will change to comply with IFRS 9. The methodology to recognize expected credit losses will be dependent on whether there has been a significant increase in credit risk on exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. In measuring the expected credit loss, the Company will consider reasonable and supportable information that is available without undue cost or effort and includes quantitative and qualitative information with a forward-looking analysis. Based on the established methodologies for recognizing expected credit losses, the Company does not expect a significant impact on its statement of financial position and results of operations upon adopting IFRS 9.

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers at the amount that reflects the consideration to which the Company expects to be entitled. The standard applies to all contracts except those within the scope of the standards on leases, insurance contracts and financial instruments.

Since the issuance of the standard, the Company has been working on a detailed impact assessment and contract review project yet to be completed in 2018. The Company recognizes the majority of its revenue over time under current policy and will continue this practice upon adoption of IFRS 15. The Company does anticipate additional disclosures after adopting the standard.

The Company plans to adopt the standard using the modified retrospective method on its effective date of January 1, 2018. The adoption of IFRS 15 is not expected to significantly impact the Company's statement of financial position or results of operations. This expectation is based upon historical data, with further analysis as part of continuing operations to be completed in 2018.

IFRS 16 *Leases* (IFRS 16) revises the principles for the recognition, measurement, presentation, and disclosures of leases. IFRS 16 establishes a single lessee accounting model which requires a lessee to recognise assets and liabilities for the rights and obligations created by all leases, with limited exceptions for short-term or low value leases. Specifically, a lessee is required to recognise a liability in the statement of financial position to make lease payments, known as the lease liability, and a right-of-use (ROU) asset representing its right to use the underlying asset over the lease term. The Company plans to adopt IFRS 16 on its effective date of January 1, 2019 on a modified retrospective basis.

The Company has established a governance structure and a project plan for its implementation efforts, along with taking further action in defining the future operating model for lease accounting and administration. The Company continues to assess the impact of IFRS 16 on the Company's financial condition and results of operations.

1.5 Measurement convention

The financial statements are prepared on a historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale, and liabilities for cash-settled share-based payments.

Notes to the Financial Statements
For the Year Ended 31 December 2017

1. Accounting policies (continued)

1.6 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is Euros.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign currency differences arising on translation are generally recognised in the profit and loss account.

1.7 Going concern

On the basis of their assessment of the Company's financial position and written assurance of liquidity support from the 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.

1.8 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest receivable' and 'Interest payable' 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 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.

Interest resulting from negative effective interest rates on a financial asset does not meet the definition of interest income because it reflects a gross outflow, instead of a gross inflow, of economic benefits. The expense arising on a financial asset because of a negative effective interest rate is presented as interest expense. The opposite presentation is applied to the income arising on financial liabilities.

1.9 Fee income and expense

Fee income is derived and payable on services relating to customer 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.

1.10 Expenses: operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense over the term of the lease.

Notes to the Financial Statements
For the Year Ended 31 December 2017

1. Accounting policies (continued)

1.11 Compensation

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payments obligations.

The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Share-based payment transactions

Where the Company grants rights to its parent's equity instruments to employees of its own subsidiaries, the Company accounts for these share-based payments as cash-settled. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account. Fair value is measured by use of the Black Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

1.12 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.13 Taxation

Tax is recognised in the profit and loss account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Notes to the Financial Statements
For the Year Ended 31 December 2017

1. Accounting policies (continued)

1.14 *Intangible assets*

Computer software is initially recognized at cost. After recognition, under the cost model, computer software is measured at cost less any accumulated amortization and any accumulated impairment losses.

Client relationship assets are initially recognized at fair value because the cost of an intangible asset acquired in a business combination is its fair value at the acquisition date. The fair value reflects market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the Company. After recognition, under the cost model, client relationship assets are subsequently measured at cost less accumulated amortization and any accumulated impairment losses.

The estimated useful lives range as follows:

Computer Software	-	7	years
Client Relationship Asset	-	15	years

1.15 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold improvements	- 15 years; or lease term if shorter
Plant and machinery	- 7 years
Office equipment	- 5 years
Computer equipment	- 3 -5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the 'other operating income' line in the statement of comprehensive income.

1.16 Goodwill

Goodwill represents the excess of the fair value of the considerable payable over the fair value of the identifiable assets acquired and liabilities assumed.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. It is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss.

Notes to the Financial Statements
For the Year Ended 31 December 2017

1. Accounting policies (continued)

1.17 Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. Contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss, unless such changes are considered measurement payment adjustments, in which case the change is reflected in goodwill.

1.18 Subsidiaries

A subsidiary is an entity controlled by the Company. The Company "controls" an entity when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company reassesses whether it has control if there are changes to one or more of the elements of control.

1.19 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

1.20 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Loans and advances

Loans and advances to banks and customers include loans and advances and repurchase agreements 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 after receipt of any proceeds.

Notes to the Financial Statements
For the Year Ended 31 December 2017

1. Accounting policies (continued)

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Held-to-maturity investment

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are recognised at trade date and are carried at amortised cost using the effective interest method, less any impairment losses (refer to section on write-off loans and advances and held to maturity investment within policy note 1.21). A sale or reclassification of a more than insignificant amount to held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassification after the Company has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Company's control that could not have been reasonably anticipated.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

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.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when, and only when, the Company has a legal right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.21 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, impairment is calculated as the difference between its carrying amount and the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

If there has been a significant or prolonged decline in the fair value of an equity instrument classified as Available for Sale, then an impairment loss will be recognised. An impairment loss is the difference between the acquisition cost and the current fair value of the instrument, less any impairment loss on that equity instrument previously recognised in profit or loss. In the case of a debt instrument classified as Available for sale, the cumulative loss is the difference between the amortised cost (i.e., the acquisition cost net of principal repayments and amortisation) and the current fair value of the instrument, less any impairment loss on that

Notes to the Financial Statements
For the Year Ended 31 December 2017

1. Accounting policies (continued)

debt instrument previously recognised in profit or loss.

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 the 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 from the sale of collateral.

Reversals of impairment on loans and advances

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.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.22 Comparatives

To the extent necessary the prior period presentation has been adjusted to be comparable with the current year amounts.

1.23 Dividends

Equity dividends are recognised when they become legally payable (when approved by the shareholders at an annual general meeting).

Notes to the Financial Statements
For the Year Ended 31 December 2017

2. Interest receivable and similar income

	2017 €000	2016 €000
Loans and advances to group banks	**11,592**	7,134
Deposits by group banks	**9,655**	3,133
Loans and advances to other banks	**3,757**	4,019
Deposits by customers	**6,787**	4,846
Loans and advances to customers	**1,101**	913
Investment securities	**2,060**	1,343
	34,952	21,388

In line with accounting policy 1.8 and IFRS guidance, negative interest expense is reclassified as interest income.

3. Interest payable and similar charges

	2017 €000	2016 €000
Customer Deposits	**7,460**	2,839
Deposits by group banks	**1,832**	3,644
Loans and advances to group banks	**776**	2,392
Loans and advances to other banks	**14,105**	4,507
Other	**265**	375
	24,438	13,757

In line with accounting policy 1.8 and IFRS guidance, negative interest income is reclassified as interest expense.

4. Fees and commission income

	2017 €000	2016 €000
Custody and depositary	**74,407**	62,391
Outsourcing fees	**2,901**	2,688
Security lending	**6,632**	6,157
Banking fees	**375**	68
Fund administration	**57,058**	38,959
	141,373	110,263

5. Fees and commission expense

	2017 €000	2016 €000
Sub-custodian expense	**12,819**	11,926
	12,819	11,926

Notes to the Financial Statements
For the Year Ended 31 December 2017

6. Other operating income

	2017 €000	2016 €000
Other operating income	**90**	-
Foreign exchange difference - gain	**1,630**	124
	1,720	124

7. Administrative expenses

With the exception of the staff disclosed below, all other staff involved in the Company's operations are employees of other Northern Trust entities. These entities are remunerated for those staff and other expenses 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 12. The NTGSL Luxembourg branch settles its own audit fees which are included in administrative expenses.

	2017 €000	2016 €000
Staff Costs (Note 9)	**12,648**	8,049
Operating lease rentals	**594**	239
Depreciation	**1,695**	289
Transfer Pricing (Note 12)	**61,915**	53,408
Acquisition costs	**6,686**	-
Other	**5,983**	4,558
	89,521	66,543

8. Auditors' remuneration

The following amounts were paid to the auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2017 €000	2016 €000
Statutory audit	**346**	233
Audit related assurance services	**320**	259
Other assurance services	**41**	41
	707	533

Notes to the Financial Statements
For the Year Ended 31 December 2017

9. Staff numbers and costs

Apart from the staff disclosed below, all other staff involved in the Company's operations are employees of other Northern Trust entities.

	2017	2016
	€000	€000
Wages and salaries	**10,800**	6,723
Social security costs	**1,041**	611
Share based payments	**234**	181
Staff pension costs	**573**	534
	12,648	8,049

The average monthly number of persons employed by the Company during the year was as follows:

	2017	2016
	No.	No.
Average number of Employees	**76**	43

10. Director's remuneration

	2017	2016
	€000	€000
Director's emoluments	**900**	828
Amounts receivable under short-term incentive schemes	**148**	162
Amounts receivable under long-term incentive schemes	**476**	431
Company contributions to defined contribution pension schemes	**6**	6
	1,530	1,427

The aggregate of emoluments and amounts receivable under short-term and long-term incentive schemes of the highest paid Director was €361,169 (2016: €560,507), and company pension contributions of €3,240 (2016: €2,063) were made to a money purchase scheme on the Directors behalf. During the year, the highest paid Director exercised share options and received shares under a long term incentive scheme.

The number of Directors to whom retirement benefits are accruing under money purchase schemes was 3 (2016: 4). One Director (2016: Nil) has retirement benefits accruing under a defined benefit scheme that is administered out of the United States of America, and for which there are no related assets and liabilities held by NTGSL.

The number of Directors in respect of whose services shares were received or receivable under long term incentives schemes was 8 (2016: 6).

Directors' emoluments are allocated by the apportionment of time incurred by Directors for services to the Company. All Directors' emoluments have been borne by a fellow group undertaking except for Non Executive Directors' remuneration of €196,521 (2016: €150,931).

Notes to the Financial Statements
For the Year Ended 31 December 2017

11. Taxation

Corporation tax:

	2017 €000	2016 €000
UK:		
Current tax on profits for the year	7,023	6,403
	7,023	6,403
Overseas:		
Current tax on profits for the year	5,301	2,073
Interest on tax	-	(1)
Adjustment in respect of prior periods	11	48
Total current tax	12,335	8,523
Deferred tax		
Total deferred tax	-	-
Taxation on profit on ordinary activities	12,335	8,523

Factors affecting tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 €000	2016 €000
Profit on ordinary activities before tax	51,267	39,549
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	9,869	7,910
Effects of:		
Current tax on banking profits exceeding banking surcharge threshold at 8%	448	57
Permanent differences	426	20
Timing differences	2	14
Foreign profits not taxed	(3,722)	(1,597)
Overseas tax suffered	5,312	2,120
Interest on tax	-	(1)
Total tax charge for the year	12,335	8,523

Notes to the Financial Statements
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12. Transfer pricing

Transfer pricing generally refers to the determination of compensation for transactions conducted between commonly controlled legal entities. 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 entities.

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.

	2017	*2016*
	€000	€000
Profit and loss account		
Amounts transferred to global transfer pricing pool	**(153,606)**	(118,019)
Re-imbursement of expenses, plus mark-up	**43,421**	25,468
Profit pool allocation	**48,270**	39,143
Transfer pricing allocation for the Company	**(61,915)**	(53,408)

Notes to the Financial Statements
For the Year Ended 31 December 2017

13. Country by Country reporting

All of the information disclosed below is in respect of Northern Trust Global Services Limited and its branches

For the year ended 2017	UK	Luxembourg branch	Netherlands branch	Sweden branch	Abu Dhabi branch	Total
Number of employees *	-	47	18	7	4	76
Turnover (€'000)**	98,489	22,430	7,635	-	-	128,554
Profit before tax (€'000)	31,932	16,692	2,079	302	262	51,267
Public subsidies received (€'000)	-	-	-	-	-	-
€'000						
Corporation tax provision b/f	-	2,320	171	(50)	-	2,441
Accruals	6,834	4,726	505	85	-	12,150
Payments ***	(6,834)	(1,100)	(446)	(97)	-	(8,477)
Corporation tax c/f	-	5,946	230	(62)	-	6,114

For the year ended 2016	UK	Luxembourg branch	Netherlands branch	Sweden branch	Abu Dhabi rep office	Total
Number of employees *	-	16	17	6	4	43
Turnover (€'000)**	81,067	10,672	6,598	-	-	98,337
Profit before tax (€'000)	31,564	6,584	1,108	293	-	39,549
Public subsidies received (€'000)	-	-	-	-	-	-
€000						
Corporation tax provision b/f	-	1,231	318	(55)	-	1,494
Accruals	6,397	1,715	336	75	-	8,523
Payments ***	(6,397)	(626)	(483)	(70)	-	(7,576)
Corporation tax c/f	-	2,320	171	(50)	-	2,441

* All UK employees are employed by an associated company, Northern Trust Management Services Limited. The number represents the average number of employees in the period.

** Turnover represents fee and commission income less fees and commissions expense.

*** UK tax is settled by The Northern Trust Company, London branch as the representative of the Group Payment Arrangement.

Nature of services:
The Company undertakes asset servicing in three locations: the UK (custody, fund administration, depositary and securities lending), Luxembourg (custody, fund administration and depositary) and the Netherlands (depositary). The Company holds client deposits as banker in the UK and Luxembourg. The Sweden and the Abu Dhabi branches undertake marketing and other client facing support activities (on 1 March 2017 the Abu Dhabi rep office converted to a branch).

By setting out the schedule above in accordance with The Capital Requirements (Country-By-Country Reporting), UK Regulation 2013, Section 2(8), Northern Trust Global Services Limited has complied with the requirements including the audit.

Notes to the Financial Statements
For the Year Ended 31 December 2017

14. Goodwill

	2017 €000	2016 €000
Cost		
Additions	33,398	-
At 31 December 2017	33,398	-
Amortisation		
At 31 December 2017	-	-
Net book value		
At 31 December 2017	33,398	-

The goodwill relates to the acquisition of the UBS business which occurred during the year. As the consideration transferred exceeded the fair value of the net assets acquired, a bargain purchase did not occur. The recognition of assets and liabilities resulted in a goodwill balance as at the completion date of the acquisition.

15. Tangible fixed assets

	Long-term leasehold property €000	Plant and machinery €000	Fixtures and fittings €000	Office equipment €000	Computer equipment €000	Total €000
Cost or valuation						
At 1 January 2017	815	26	278	25	258	1,402
At 31 December 2017	815	26	278	25	258	1,402
Depreciation						
At 1 January 2017	399	5	41	15	110	570
Charge for the year on owned assets	177	4	28	5	49	263
At 31 December 2017	576	9	69	20	159	833
Net book value						
At 31 December 2017	239	17	209	5	99	569
At 31 December 2016	416	21	237	10	148	832

Notes to the Financial Statements
For the Year Ended 31 December 2017

16. Intangible assets

	Software €000	Client Relationship Asset €000	Total €000
Cost			
At 1 January 2017	229	-	229
Additions - external	-	85,397	85,397
At 31 December 2017	229	85,397	85,626
Amortisation			
At 1 January 2017	221	-	221
Charge for the year	6	1,426	1,432
At 31 December 2017	227	1,426	1,653
Net book value			
At 31 December 2017	2	83,971	83,973
At 31 December 2016	8	-	8

The client relationship asset, within intangible assets above, arose from the acquisition of the UBS business which occurred during the year.

Notes to the Financial Statements
For the Year Ended 31 December 2017

17. Acquisitions of businesses

Acquisitions in the current period

On 1 October 2017, the Company acquired the assets of UBS Fund Services Luxembourg through the Company's Luxembourg branch and shares in a newly incorporated UBS Swiss entity (which was subsequently renamed Northern Trust Switzerland AG). The consideration transferred to UBS was in the form of cash on the completion date ("Initial Purchase Price") and in the form of two subsequent earn-out payments (Contingent Consideration). The total consideration has been split between the purchase of UBS Fund Services Luxembourg assets and the share capital of Northern Trust Switzerland AG according to a determination of the economic value associated with each element.

The new Luxembourg business provides fund administration services including the provision of fund accounting and transfer agency supporting both traditional and alternative fund structures. The Company acquired employees, client relationships, property and as such an organized workforce and operational processes. These are utilized to provide fund administration and transfer agency capabilities to the Company's clients. The Company acquired both inputs and processes that are capable of producing outputs therefore the acquisition meets the definition of a business combination. In the three months to 31 December 2017, the new business contributed revenue of €9.8 million.

If the acquisition had occurred on 1 January 2017, full year turnover would be estimated at €39 million and full year net profit before tax would be estimated at €12.3 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of the acquisition would have been the same if the acquisition occurred on 1 January 2017.

The reason for the acquisition was to grow the Company's presence in continental Europe, significantly expanding the established Luxembourg Branch and opening up opportunities into the Switzerland market. The acquisition also provides part of the rationale for the planned transition of the Company's domicile to Luxembourg.

At acquisition date, the investment had the following effect on the Company's assets and liabilities.

	Recognised values on acquisition €000
Investment in Northern Trust Switzerland AG	42,526
Luxembourg intangible assets	85,397
Receivable from UBS	3,443
Pension Liability	(30)
	131,336
Consideration paid:	
Initial cash price paid	155,704
Cash for share capital in Northern Trust Switzerland AG	87
Initial cash consideration relating to business combinations	155,791
Contingent consideration expected to be paid at fair value	8,943
Total consideration	164,734
Goodwill on acquisition	33,398

Notes to the Financial Statements
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Investment in Northern Trust Switzerland AG

The Company purchased CHF100,000 of share capital for €42,526,000.

Intangible Assets

As part of the transaction, Northern Trust acquired two different types of customer relationships:

- UBS managed funds
- Third-Party managed funds

The finite useful life of the UBS contract has been determined to be 15 years. The intangible asset is amortized on a straight-line basis reflecting the pattern in which the asset is consumed and in which the Company expects to receive its revenues related to the fund administration contracts.

Goodwill

Goodwill has arisen on the acquisition because the fair value of the consideration exceeded of the fair value of the net assets acquired. No impairment had occurred as of 31 December 2017.

Contingent consideration

The Company has agreed to pay additional consideration known as earn-out. This first earn-out payment was calculated as the difference between the Initial Purchase Price and the Provisional Purchase Price based on business won and lost as of 19 November 2017, since 31 December 2016. The first earn-out payment of CHF 8,406,594 was paid to UBS on 4 December, 2017. The second earn-out payment is due to UBS on 25 July 2018 based on business won and lost until 19 May 2018. The fair value of the second earn-out payment is CHF2,185,010 (€1,867,124 equivalent) and it is based on the latest available client data in December 2017. Accretion changes with the fair value of the contingent consideration. The accretion expense of CHF 360,716 has been recognized as administration expense in the income statement as of 31 December, 2017.

Acquisition related costs

The Company incurred €6,685,781 of acquisition related costs. These consisted of €2,350,538 legal services, €2,742,621 financial advisors costs and €1,592,622 other expenses. These costs have been included in administrative expenses in the Company's income statement.

Receivable from UBS

The fair value of acquired debtors was €3,439,000. Cash was received to settle the agreed balance before 31 December 2017.

Notes to the Financial Statements
For the Year Ended 31 December 2017

18. Investments in subsidiaries

	2017 €000	2016 €000
NT Property Nominees 1A Limited	-	-
NT Property Nominees 1B Limited	-	-
1889 Holdings S.A.	30	-
Northern Trust Switzerland AG	42,526	-
	42,556	-

As at 31 December 2017, the Company owned 100% of the issued share capital of NT Property Nominees 1A Limited, 50 Bank Street, Canary Wharf, London, E14 5NT, United Kingdom. The investment in the subsidiary undertaking is one ordinary share of £1 each (Euro equivalent €1 each), and the principal activity of the company is a nominee company.

As at 31 December 2017, the Company owned 100% of the issued share capital of NT Property Nominees 1B Limited, 50 Bank Street, Canary Wharf, London, E14 5NT, United Kingdom. The investment in the subsidiary undertaking is one ordinary share of £1 each (Euro equivalent €1 each), and the principal activity of the company is a nominee company.

The Company established a new entity in 2017 called 1889 Holdings S.A. It is located in Luxembourg at Senningerberg, Grand Duchy of Luxembourg with the Company owning 100% of the issued share capital of the entity. The investment in the subsidiary undertaking is 30,000 ordinary shares of €1 each, and the principal activity of the company is a holding company.

As at 31 December 2017, the Company owned 100% of the issued share capital of Northern Trust Switzerland AG, located at Aeschenplatz 6, CH-4052 Basel, Switzerland. During 2017, the Company bought 100% of this renamed entity as part of the fund administration acquisition from UBS. The investment in the subsidiary undertaking is 100,000 ordinary shares of CHF1 each (Euro equivalent €1 each). The principal activity of Northern Trust Switzerland AG is to provide fund administration services.

19. Cash and cash equivalents

	2017 €000	2016 €000
Bank current accounts	401,654	340,431
	401,654	340,431

20. Loans and advances to group banks

	2017 €000	2016 €000
Repayable on demand	127,713	587,167
Repayable within 3 months	1,638,385	483,179
	1,766,098	1,070,346

21. Loans and advances to customers

	2017 €000	2016 €000
Repayable on demand	24,152	20,747
	24,152	20,747

Notes to the Financial Statements
For the Year Ended 31 December 2017

22. Investment securities

	2017 €000	2016 €000
Held-to-maturity investments < 1 year	-	191,542
Held-to-maturity investments > 1 year	**201,962**	205,482
	201,962	397,024

23. Prepayments and accrued income

	2017 €000	2016 €000
Accrued interest - group banks	**736**	116
Accrued interest - other banks	**503**	332
Accrued income	**28,715**	20,900
Prepayments	**1,172**	1,168
	31,126	22,516

24. Other assets

	2017 €000	2016 €000
Due within one year		
Trade debtors	**15,848**	12,090
Due from group undertakings	**10,215**	3,936
Other assets	**2,281**	11,715
	28,344	27,741

25. Accruals and deferred income

	2017 €000	2016 €000
Accrued interest - group banks	**17**	35
Accrued interest - other banks	**183**	57
Accrued interest - customers	**889**	257
Accrued expenses	**7,842**	2,964
	8,931	3,313

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For the Year Ended 31 December 2017

26. Provisions

	2017 €000	2016 €000
Balance as at 1 January 2017	**139**	82
Provisions made during the year	**-**	54
Discount rate adjustment and computed interest	**1**	1
Foreign exchange movement	**(12)**	2
Balance as at 31 December 2017	**128**	139

This provision is for dilapidations on leasehold improvements in the Abu Dhabi and Sweden offices.

27. Other liabilities

		2017 €000	2016 €000
Provision for tax		**6,114**	2,441
Contingent Consideration		**1,867**	-
Other liabilities		**5,183**	1,530
Due to group undertaking	< 1 year	**44,418**	18,440
Loan from parent company	> 1 year	**76,562**	76,562
		134,144	98,973

At 31 December 2017 there is a loan from the parent company, Northern Trust Holdings Limited for €76.6 million (2016: €76.6 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 regulators (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 Euribor rate on 27 December in each year, or the next business day, plus 200 basis points or such other rate as may be agreed by the parties.

The Contingent consideration relates to an earn-out payment on the UBS acquisition, which occurred during 2017. It is shown at fair value via accretion charges, which are expensed to the profit and loss account. Further details are contained in Note 17.

28. Employee benefits

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

The total expense relating to these plans in the current year was €572,968 (2016: €533,972).

Share based payments

The Company participates in The Northern Trust Corporation 2012 Stock Plan (the 2012 Plan) which is administered by the Compensation and Benefits Committee of the Board of Directors of the Group. The 2012 Plan provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights, stock awards, stock units and performance stock units. Grants are outstanding under the 2012 Plan and The Amended and Restated Northern Trust Corporation 2002 Stock Plan, a predecessor plan (2002 Plan).

Stock options consist of options to purchase common stock at prices not less than 100% of the fair market value thereof on the date the options were granted. Options have a maximum ten-year life and generally vest and become exercisable in one to four years after the date of grant. In addition, all options may become exercisable upon a 'change in control' as defined in the 2012 Plan of the 2002 Plan. All options terminate at such time as determined by the Committee and as provided in the terms and conditions of the respective option grants.

Notes to the Financial Statements
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Cash and equity settled awards granted during the year total 2,820 units (2016: 3264 units). The market price at award date was USD 88.06 to USD 99.59 (2016: USD 58.25). The options outstanding at the year end have an exercise price in the range of USD 43.65 to USD 71.23 and a weighted average contractual life of 2.93 years.

The weighted average share price at the grant date of share options exercised during the year was USD 52.79 (2016: USD 63.36).

29. Reserves

Profit and loss account

Accumulated Profit is recognised in Retained Earnings.

30. Share capital

	2017 €000	2016 €000
Authorised		
Nil (2016: 400,000,000) Ordinary shares of €1 each	-	400,000
Allotted, called up and fully paid		
310,506,238 (2016: 142,292,483) Ordinary shares of €1 each	**310,506**	142,292

The authorised share capital of the Company was removed by a special resolution of the single member passed on 2 August 2017.

In order to fund the UBS acquisition during the year, the Company made an allotment of 168,213,755 shares of €1 each at par value, to its parent Northern Trust Holdings Limited, in return for cash.

31. Financial instruments

(a). Fair values of financial instruments

The table below analyses financial instruments, into a value hierarchy based on the inputs used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements
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The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

IAS 39 categories of financial instruments Assets	2017 Carrying amount €000	2017 Fair value €000	2017 Level 1 €000	2017 Level 2 €000	2017 Level 3 €000	2016 Carrying amount €000	2016 Fair value €000	2016 Level 1 €000	2016 Level 2 €000	2016 Level 3 €000
Derivatives										
Forward exchange contracts	4	4	-	4	-	-	-	-	-	-
Total FX Forward contract	4	4	-	4	-	-	-	-	-	-
Held to maturity financial assets										
Held to maturity investments	201,962	201,260	201,260	-	-	397,024	396,576	396,576	-	-
Total held to maturity financial assets	201,962	201,260	201,260	-	-	397,024	396,576	396,576	-	-
Loans and receivables *										
Other loan and debtors	8,353,466	8,353,466	-	-	8,353,466	4,556,778	4,556,778	-	-	4,556,778
Total loans and receivables	8,353,466	8,353,466	-	-	8,353,466	4,556,778	4,556,778	-	-	4,556,778
Total financial assets	8,555,432	8,554,730	201,260	4	8,353,466	4,953,802	4,953,354	396,576	-	4,556,778

* Loans and receivables are short term in nature thus the fair value equals the carrying amount.

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Liabilities	2017 Carrying amount €000	Fair value €000	Level 1 €000	Level 2 €000	Level 3 €000	2016 Carrying amount €000	Fair value €000	Level 1 €000	Level 2 €000	Level 3 €000
Derivatives										
Forward exchange contracts	1,603	1,603	-	1,603	-	-	-	-	-	-
Total FX Forward contract	1,603	1,603	-	1,603	-	-	-	-	-	-
Financial liabilities measured at amortised cost										
Borrowings	8,121,107	8,121,107	-	-	8,121,107	4,641,692	4,641,692	-	-	4,641,692
Other financial liabilities measured at amortised cost	141,601	141,601	-	-	141,601	102,425	102,425	-	-	102,425
Total financial liabilities measured at amortised cost	8,262,708	8,262,708	-	-	8,262,708	4,744,117	4,744,117	-	-	4,744,117
Total financial liabilities	8,264,311	8,264,311	-	1,603	8,262,708	4,744,117	4,744,117	-	-	4,744,117
Total financial instruments	291,121	290,419	201,260	(1,599)	90,758	209,685	209,237	396,576	-	(187,339)

Notes to the Financial Statements
For the Year Ended 31 December 2017

The following table shows the valuation techniques used for Level 2 and Level 3 fair values, as well as the significant unobservable inputs used for Level 3 items.

Financial instruments measured at fair value	Valuation technique
Forward exchange contracts	Fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds)

32. *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 (including compliance and fiduciary risks), 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 Board's 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 of NTC; Asset and Liability, Credit Risk, Fiduciary Risk, Operational Risk, Compliance and Ethics 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.

There is an EMEA Executive Management Committee ("EMC") which is responsible for the daily management of the Europe, Middle East and Africa (EMEA) Entities' businesses (including the Company) and execution of the agreed strategies. The Company has branches in the Netherlands, Sweden and Luxembourg, and Abu Dhabi. The country heads for these offices report into the EMC in addition to the Company's Board. The EMC has appointed the EMEA Risk Committee ("ERC") to assist it in managing all relevant risks; all prudential risk related activities, including regulatory submissions, are debated and challenged at the EMEA Prudential Committee ("EPC"), a sub-committee of ERC. Regular risk reporting is provided to the Risk Committee of the Board.

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.

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(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 (including central 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)
- the placement of funds with The Northern Trust Company on a fully collateralised basis
- providing credit facilities to custody clients via incidental overdrafts or contractual settlement, as determined by case by case basis in support of global custody settlement activity
- purchase of high quality investment securities
- limited provision of formal client facilities (either committed or uncommitted)

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.'

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 ERC and the Board.

This credit risk management process is documented in the Credit Policy and the Provisioning Policy which has been approved by the Company's Board of Directors.

Approval and monitoring of money market placement exposure

NTC's Capital Markets Credit Committee ("CMCC") is responsible for approving wholesale market counterparties and limits for money market placements. Under the global limits approved by CMCC, sub-limits have been established for use by the Company, subject always to local regulatory limits applicable to the Company. The Counterparty Credit Risk Analyst team is responsible for monitoring exposures and recommending changes to the CMCC. The Company aims to mitigate risk by the selection of top tier counterparts, who are usually systemically important banks.

Approval and monitoring of investment security issuers

CMCC is responsible for approving all investment security issuers and limits for purchase of permitted security types of these issuers subject always to local regulatory limits applicable to the Company. The Counterparty Credit Risk Analyst team monitors exposures and recommends changes to the CMCC. The Company aims to mitigate risk by the selection of high quality issuers.

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

NTC's Sub-custodian Oversight Committee is responsible for the evaluation and approval for proposals for the appointment or replacement of sub-custodians and nostro bank agents for use by Northern Trust group companies including the Company. Similar to money market counterparts, the nostro agent banks are usually full branches or subsidiaries of systemically important banks.

Approval and monitoring of credit for custody clients

If custody clients seek formal overdraft facilities, relationship managers are responsible for initiating a request for limits to the Global Financial Institutions ("GFI") team. The GFI team is responsible for undertaking credit analysis and presenting 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. Monitoring is against limits and the clearance of overdrafts is followed to resolution.

Approval and monitoring of securities lending exposures

NTC's CMCC is responsible for approving securities lending counterparties and limits. The Company acts as securities lending agent and provides 'enhanced' indemnities to its clients, in the event of a borrower default. Loans of client securities are required to be fully collateralised with cash, government securities or other types of collateral depending on the guidelines.

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Credit approvals - other considerations

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

The Company's credit risk portfolio is monitored daily and reviewed by ERC via a monthly residual risk assessment. The Risk Committee of the Board receive a quarterly 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.

Geographical sector

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by geographical region as at 31 December 2017. The table allocates exposures to regions based on the country of domicile of individual counterparties.

	Europe €000	North America €000	Australia €000	Asia €000	Middle East & Africa €000	Other €000	Total €000
Cash and cash equivalents	**222,839**	**4,287**	**3,586**	**67,326**	**84,017**	**19,599**	**401,654**
Loans and advances to group banks	**1;707,377**	**58,721**	-	-	-	-	**1,766,098**
Loans and advances to other banks	**6,090,666**	-	-	-	-	-	**6,090,666**
Loans and advances to customers	**23,938**	-	**9**	-	**204**	**1**	**24,152**
Investment securities	**196,914**	**5,048**	-	-	-	-	**201,962**
As at 31 December 2017	**8,241,734**	**68,056**	**3,595**	**67,326**	**84,221**	**19,600**	**8,484,532**
Cash and cash equivalents	111,839	2,007	8,072	85,727	109,538	23,248	340,431
Loans and advances to group banks	601,748	8,567	-	-	-	-	610,315
Loans and advances to other banks	3,042,414	-	-	55,099	-	-	3,097,513
Loans and advances to customers	20,691	-	9	-	46	1	20,747
Reverse repurchase agreements	-	460,031	-	-	-	-	460,031
Investment securities	391,959	5,065	-	-	-	-	397,024
As at 31 December 2016	4,168,651	475,670	8,081	140,826	109,584	23,249	4,926,061

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For the Year Ended 31 December 2017

Industry sector

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

	Corporate €000	Governments & Financial Institutions €000	Total €000
Cash and cash equivalents	-	**401,654**	**401,654**
Loans and advances to group banks	-	**1,766,098**	**1,766,098**
Loans and advances to other banks	-	**6,090,666**	**6,090,666**
Loans and advances to customers	**24,152**	-	**24,152**
Investment securities	-	**201,962**	**201,962**
As at 31 December 2017	**24,152**	**8,460,380**	**8,484,532**
Cash and cash equivalents	-	340,431	340,431
Loans and advances to group banks	-	610,315	610,315
Loans and advances to other banks	-	3,097,513	3,097,513
Loans and advances to customers	20,747	-	20,747
Reverse repurchase agreements	-	460,031	460,031
Investment securities	-	397,024	397,024
As at 31 December 2016	20,747	4,905,314	4,926,061

Credit quality of financial assets and impairment losses

The aging of trade receivables at the balance sheet date was:

	2017 Gross €000	2016 Gross €000
0-30 days	**8,149**	6,613
31-120 days	**6,968**	4,476
More than 120 days	**731**	1,001
	15,848	12,090

All other asset classes that are not trade receivables, are not past due.

There was no impairment during the year (2016: Nil).

Notes to the Financial Statements
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Offsetting financial assets and financial liabilities

The disclosures set out below include financial assets and financial liabilities that:

- are offset in the Company's balance sheet; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the balance sheet.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed unless they are offset in the balance sheet.

The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the balance sheet. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Company receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements; and
- securities lending and borrowing.

Such collateral is subject to standard industry terms including, when appropriate, an ISDA Credit Support Annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The gross amounts of recognised financial assets are the same as the net amounts as at 31 December 2017 and 31 December 2016.

Notes to the Financial Statements
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(c). Liquidity risk

Liquidity risk management and monitoring

Under Northern Trust's risk framework, liquidity risk is governed by the Asset and Liability Management Policy Committee ("ALCO"). The Chief Financial Officer (EMEA), who is a Director of the Company, 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 Company 'Liquidity and Investment Policy Statement'. This sets out the governance, risk appetite, monitoring and reporting framework, including stress testing and contingency funding plans. The Directors believe 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, with central banks or intragroup with The Northern Trust Company, London Branch ("TNTC London"). 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 'NTGSL Credit Policy Statement', taking concentration and diversification risk into account.

The following liquidity limits, against which exposures are monitored on a daily basis, apply to the Company:

- A High Quality Liquid Asset (HQLA) buffer needs to be maintained such that it is sufficient to cover, on a daily basis, the higher of the net cash outflow which meets a 100% Liquidity Coverage Ratio (LCR) or the maximum cumulative net cash outflow over a 30 day calendar survival period, under approved stress scenarios defined as part of the NTGSL Internal Liquidity Adequacy Assessment Process (ILAAP). The liquidity buffer for the Company is maintained as cash held in Reserve Accounts at the Central Bank of Luxembourg and at the Bank of England as well as in eligible HQLA securities.

- Investment in securities is limited to high quality liquid fixed income securities denominated in EUR, GBP or USD, with a maximum tenor of 5 years.

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.

Residual contractual maturities of financial liabilities

	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	**4,313,025**	**4,313,025**	**4,313,025**	-	-	-
Bank overdrafts	**35**	**35**	**35**	-	-	-
Deposits by customers	**3,808,048**	**3,808,048**	**3,808,048**	-	-	-
Loans	**76,562**	**76,562**	-	-	-	**76,562**
Contingent purchase consideration	**1,867**	**1,867**	-	-	**1,867**	-
Interest	**200**	**1,563**	**314**	**227**	**1,022**	-
As at 31 December 2017	**8,199,737**	**8,201,100**	**8,121,422**	**227**	**2,889**	**76,562**
Deposits by group banks	1,905,350	1,905,350	1,905,350	-	-	-
Bank overdrafts	4,712	4,712	4,712	-	-	-
Deposits by customers	2,731,630	2,731,630	2,731,630	-	-	-
Loans	76,562	76,562	-	-	-	76,562
Interest	91	1,577	215	248	1,114	-
As at 31 December 2016	4,718,345	4,719,831	4,641,907	248	1,114	76,562

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For the Year Ended 31 December 2017

(d). Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

Trading risk is a subset of market risk and is the risk of loss from changes in the value of trading positions. Northern Trust considers all 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 EU Capital Requirements Regulation ("CRR").

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 overnight 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.

Market risk –Interest rate risk

Interest rate risk in the banking book is the risk to earnings or economic value of equity resulting from significant unexpected 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 investments. Under Northern Trust's risk framework, interest rate risk in the banking book is governed by ALCO.

On an operating basis, the Company's activities are managed by the EMEA Treasury function with independent risk oversight by the Market and Liquidity Risk Group within Corporate Risk Management. Interest rate risk is managed by EMEA Treasury primarily through securities investment tenor limits and sensitivity measures, which are used to assess the impact to earnings and economic value of equity due to changing rates, which are specified in the "NTGS Liquidity and Investment Policy Statement". A monthly report, which shows the sensitivity of earnings (SOE) and sensitivity of economic value of equity ("SEVE") to changing interest rates against approved limits, is produced by Corporate Risk and distributed to the Head of Treasury (EMEA) and the Market and Liquidity Risk Group for review, with exceptions escalated to the risk committee. SOE is calculated using a simulation, which is based on a +200 basis points ramped change in interest rates from the current market implied forward rates (at equal monthly amounts up to +200 bps), over the next year. SEVE is calculated using a simulation, which is based on an instantaneous +200bp parallel change in interest rates.

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..

Notes to the Financial Statements
For the Year Ended 31 December 2017

The following market risk tables include financial and non-financial assets and liabilities for the purpose of agreement to the balance sheet.

Interest rate gap analysis

As at 31 December 2017	Not more than three months €000	More than three months €000	Non-interest bearing €000	Total €000
Cash and cash equivalents	241,945	-	159,709	401,654
Loans and advances to group banks	1,640,168	-	125,930	1,766,098
Loans and advances to other banks	6,090,666	-	-	6,090,666
Loans and advances to customers	24,152	-	-	24,152
Investment securities	-	201,962	-	201,962
Prepayments and accrued income	9,695	-	21,431	31,126
Fixed assets & Investments	-	-	160,496	160,496
Other assets	-	-	28,344	28,344
Total assets	8,006,626	201,962	495,910	8,704,498
Deposits by Group banks	4,313,025	-	-	4,313,025
Bank overdrafts	35	-	-	35
Deposits by customers	3,778,322	-	29,726	3,808,048
Accruals and provisions	1,089	-	7,970	9,059
Other liabilities	-	76,562	57,582	134,144
Total liabilities	8,092,471	76,562	95,278	8,264,311
Overall interest rate gap	(85,845)	125,400	400,632	440,187

As at 31 December 2016	Not more than three months €000	More than three months €000	Non-interest bearing €000	Total €000
Cash and cash equivalents	177,136	-	163,295	340,431
Loans and advances to group banks	957,305	-	113,041	1,070,346
Loans and advances to other banks	3,097,513	-	-	3,097,513
Loans and advances to customers	20,747	-	-	20,747
Investment securities	59,131	337,893	-	397,024
Prepayments and accrued income	8,229	-	14,287	22,516
Fixed assets & Investments	-	-	840	840
Other assets	-	-	27,741	27,741
Total assets	4,320,061	337,893	319,204	4,977,158
Deposits by Group banks	1,905,350	-	-	1,905,350
Bank overdrafts	4,712	-	-	4,712
Deposits by customers	2,706,675	-	24,955	2,731,630
Accruals and provisions	348	-	3,104	3,452
Other liabilities	-	76,562	22,411	98,973
Total liabilities	4,617,085	76,562	50,470	4,744,117
Overall interest rate gap	(297,024)	261,331	268,734	233,041

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Sensitivity analysis

The primary market risk that the Company is subject to is interest rate risk. As at 31 December 2017 the Company held an immaterial number of financial instruments classified at fair value through the profit and loss and no available for sale assets (2016: Nil). Accordingly, a change in interest rates at the balance sheet date would not have materially changed profits or shareholder equity.

Net currency position analysis

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

As at 31 December 2017	EUR	GBP	JPY	NOK	USD	Other	Total
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and cash equivalents	206,221	3,395	5,082	1,698	9,443	175,815	401,654
Loans and advances to group banks	146,713	113,275	68,527	-	1,213,092	224,491	1,766,098
Loans and advances to other banks	5,500,000	183,785	-	365,249	41,632	-	6,090,666
Loans and advances to customers	14,957	1,399	539	393	4,716	2,148	24,152
Investment securities	45,143	90,531	-	-	66,288	-	201,962
Prepaid and accrued income	12,920	9,303	28	1,190	5,583	2,102	31,126
Fixed assets and Investments	125,546	-	-	-	-	34,950	160,496
Other assets	7,724	10,863	20	1,660	5,645	2,432	28,344
	6,059,224	412,551	74,196	370,190	1,346,399	441,938	8,704,498
Liabilities							
Deposits by group banks	4,243,000	46,559	-	-	963	22,503	4,313,025
Bank overdrafts	-	35	-	-	-	-	35
Deposits by customers	1,014,906	354,246	74,242	369,459	1,624,598	370,597	3,808,048
Accruals and provisions	3,442	73	6	170	1,888	3,480	9,059
Other liabilities	44,121	8,192	35	711	8,754	72,331	134,144
	5,305,469	409,105	74,283	370,340	1,636,203	468,911	8,264,311
Net on-balance sheet financial position	753,755	3,446	(87)	(150)	(289,804)	(26,973)	440,187

Notes to the Financial Statements
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As at 31 December 2016	EUR	GBP	JPY	NOK	USD	Other	Total
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and cash equivalents	77,518	3,862	11,301	11,992	17,283	218,475	340,431
Loans and advances to group banks	112,912	42,223	67,480	21,103	630,381	196,247	1,070,346
Loans and advances to other banks	2,550,000	191,796	-	355,717	-	-	3,097,513
Loans and advances to customers	849	9,247	32	1,242	9,193	184	20,747
Investment securities	106,085	106,667	-	-	184,272	-	397,024
Prepaid and accrued income	6,802	11,171	(1)	789	3,004	751	22,516
Fixed assets and Investments	840	-	-	-	-	-	840
Other assets	3,606	7,446	711	137	9,648	6,193	27,741
	2,858,612	372,412	79,523	390,980	853,781	421,850	4,977,158
Liabilities							
Deposits by group banks	1,875,000	6,500	-	-	23,850	-	1,905,350
Bank overdrafts	-	379	-	-	-	4,333	4,712
Deposits by customers	660,241	358,879	79,562	390,229	825,991	416,728	2,731,630
Accruals and provisions	2,191	29	4	172	510	546	3,452
Other liabilities	88,129	6,631	(43)	580	3,529	147	98,973
	2,625,561	372,418	79,523	390,981	853,880	421,754	4,744,117
Net on-balance sheet financial position	233,051	(6)	-	(1)	(99)	96	233,041

(e) Operational risk (unaudited)

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 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.

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(f) Strategic risk (unaudited)

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 Group 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.

(g) Capital management

The Company is authorized by the PRA as a credit institution and supervised on a solo consolidated basis. The Company manages its capital resources to ensure it complies with the regulatory requirements set out by the PRA.

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 following table shows the regulatory capital resources of the Company as at 31 December:

	2017	2016
	€000	€000
Tier 1	**280,286**	233,041
Tier 2 *(before regulatory deductions)*	**76,562**	76,562
Total capital	**356,848**	309,603

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 2017.

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

Notes to the Financial Statements
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33. Operating leases

	2017 €000	2016 €000
Not later than 1 year	**1,476**	276
Later than 1 year and not later than 5 years	**1,971**	436
Total	**3,447**	712

	2017 €000	2016 €000
Sublease receivable		
Not later than 1 year	**31**	31
Later than 1 year and not later than 5 years	**81**	81
Total	**112**	112

The Company leases a number of office buildings under operating leases in Abu Dhabi and the Netherlands and Luxembourg.

NTGS Luxembourg entered in to a lease agreement as part of the UBS acquisition with UBS Europe SE effective 1 October 2017 for office and car parking space. Located in Luxembourg, Avenue Borschette, Plateau de Kirchberg. The amount of the lease is €265,045 per quarter excluding VAT, with a rent free period until 31 December 2017. The agreement provides that the tenant may terminate the Lease Agreement with effect as of 30 April 2020 with a twelve months' prior notice.

During the year €593,696 was recognised as an expense in the profit and loss account in respect of operating leases (2016: €238,576).

34. Commitments and guarantees

The Company had issued no commitments nor provided any guarantees at year end (2016: Nil)

35. Subsequent events

In March 2018 NTGSL applied to the CSSF to become a credit institution concurrently with re-domiciling to Luxembourg.

There have been no other significant events affecting the Company.

36. 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.

Notes to the Financial Statements
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37. Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements and estimates have had the most significant effect on amounts recognised:

Transfer Pricing

The determination of transfer pricing is made using an "arm's-length" standard that tests what would have occurred in comparable circumstances between comparable, unrelated taxpayers. Judgement is required with regards to the appropriate methodology and verification of reasonableness. Further details are contained in note 12.

UBS Acquisition

The acquisition of the UBS business required both significant judgements and estimation.

In terms of judgements, the principal ones were:

- The determination that, from the perspective of these company-only accounts, the acquisition of the Luxembourg business required business combination accounting whilst the acquisition of the Swiss company did not - as the latter was a purchase of a legal entity
- There were no intangible assets that required measurement other than the customer relationship assets. Other potential intangibles assets considered for recognition were the workforce, trade names, developed technology, non-compete arrangements and leases but none of these that could be recognised under IFRS had any material value

The key estimates related to:

- The valuation of the intangible asset pertaining to customer relationship assets
- The allocation of consideration between the Luxembourg and Swiss territories
- The contingent consideration
- The amortisation period of the intangible assets

The valuation of the customer relationship assets involved a number of inputs including:

- Revenue: Based on existing UBS growth rates
- Client attrition: minimal, 0% - 0.7%
- Discount rates: Use of local internal rates of return, Luxembourg 16.7%
- Contributory asset charges: Key assets that contribute to customer cash flows were working capital estimated at six months on annual expenses and cost and debt, fixed assets, workforce cost of replacement and regulatory capital.

Customer relationship assets relating to UBS managed funds and third party funds were considered separately and it was determined that the intangible asset pertaining to UBS managed funds amounted to €85.4m whilst the third party funds amounted to Nil. The principal differences related to the relative level of funds under management, the margin and the costs of integration.

Consideration was allocated between the two territories based on relative earnings. A 1% (decrease)/increase in the percentage allocated to Luxembourg would have (decreased)/increased goodwill by €1.6m and (decreased)/increased the investment in subsidiary by €1.6m.

The amortisation period for client intangible assets has been based on the contractual terms with UBS as set out in the ASTA and other agreements. If the amortisation period was reduced/increased by 10%, the amortisation charge for the period would have been €158,143 / (€129,390) higher/(lower). The impact on the client intangible assets of a 10% (decrease)/increase in the discount rate applied would have increased/(decreased) by €6.8m / (€5.9m).

The contingent consideration for the UBS acquisition as of 31 December 2017 includes one cash payment subsequent to the acquisition date. The payment amount depends on new and retained client contracts as set out in the Asset and Share Transfer Agreement ("ASTA"). Further details are contained in note 27.